



COUNCIL POLICY

TREASURY POLICY **Including the Investment Policy**

Approved by: Council – 30 June 2008

Document Owner
Position: Manager Finance

Next review June 2009

Treasury Policy

1. INTRODUCTION

This Treasury Policy underpins the Council's decision making in the funding of Council's operations in the context of cash flow, budgeting, borrowings and investments, as documented in its Annual Business Plan and Budget and Long Term Financial Plan. It is an important financial management tool in the funding of Council's expenditure.

Council is committed to adopting and maintaining a Long Term Financial Plan and operating in a financially sustainable manner.

As such, this Treasury Policy links closely to the Council's overall Strategic Management Plan in the context of:

- strategic planning for the future of the Council, covering short, medium and long term spending and investment issue;
- current and estimated future revenues and the ability to increase the revenue stream through either taxation, user charges, additional grant funds or entrepreneurial activities;
- inter-generational equity considerations in terms of the rate payers who benefit from the expenditure and therefore on a user pay basis who should pay for the costs associated with such expenditure;
- current and future funding needs for both operating and capital expenditures;
- potential movements in interest rates; and
- any other strategic imperative that is linked to revenue and expenditure capacities.

Given legislative requirements, the Council's Investment Policy is a separate document, which forms part of this overall Treasury Policy (See the following Investment Policy).

2. POLICY OBJECTIVES

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

- ensures that the appropriate level of funds are available at the appropriate time to support approved strategic objectives and outlays;
- is financially responsible and prudent in Treasury matters, ensuring that all interest rate and other risks (e.g. liquidity and investment credit risks) are acknowledged and managed appropriately;
- minimises net interest costs of borrowings on average over the longer term;
- ensures, where possible, that the structure of the borrowing is appropriate for the nature of the assets being funded;
- considers 'user pays' principles as part of determining the most appropriate way to fund activities;
- maximises interest earned on surplus funds within prudent risk limits; and
- ensures Council's funding activities are in accordance with its legislative and common law responsibilities.

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3. TREASURY POLICY STATEMENTS

3.1 *TREASURY MANAGEMENT STRATEGY*

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

- 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 and Interest Cover ratios).

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

- maintain target ranges for both its Net Financial Liabilities and Interest Cover ratios;
- generally only borrow funds when it needs cash and not specifically for particular projects;
- not retain and quarantine money for particular future purposes unless required by legislation or agreement with other parties;
- apply any funds that are 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.

3.2 *LINK TO STRATEGIC MANAGEMENT PLAN*

Treasury operations, including borrowings, shall be considered as a mechanism to assist in achieving the strategic objectives of the Council as linked to the Strategic Management Plan and its long-term vision.

3.3 *INTER-GENERATIONAL EQUITY FUNDING*

The Council shall strive to achieve equity between generations of ratepayers (inter-generational equity) whereby the mechanisms to fund specific capital expenditure and operations take into account the ratepayers who benefit from the expenditure and therefore on a user pay basis who should pay for the costs associated with such expenditure.

3.4 *LONG-TERM SUSTAINABILITY OF COUNCIL*

The level of borrowings shall be within acceptable limits to ensure long-term sustainability. Council needs to ensure that the amount of borrowings does not exceed its limits, so that debt servicing costs can be met on an ongoing basis. It is noted that many of the ratios used in the finance sector are not relevant for councils or specifically for the City of Adelaide.

The three relevant indicators that need to be considered are that:

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- Council maintains Net Financial Liabilities no greater than 80% of Own Source Revenue. Net Financial Liabilities are defined as total liabilities less total financial assets.
- Council maintains a Borrowing Rate Ratio (BRR) of no more than 80%. The BRR is calculated as a percentage of total borrowings to total Own Source Revenue. Own Source Revenue comprises all rate revenue, municipal charges and non-specific financial assistance, excluding capital grants and interest earned on investments.
- Council maintains a Debt Servicing Ratio (DSR) of no more than 25%. The DSR is the level of debt servicing costs (interest and principal) as a percentage of Own Source Revenue. Note that roll over of debt will not be included in debt servicing calculations.

Whilst the first two limits are prudential limits relating to bank loans, the third limit forms a part of Council's Strategic Financial Parameters. It is similar to the BRR but represents a lower level of debt and is a more realistic target for Council to work towards, given that exceeding the BRR is not permissible. Where any of these ratios are outside the recommended limits, a reduction in borrowing would need to be considered.

Given that it is at the Annual Business Plan & Budget adoption that the amount of borrowings for the next year budget, if any, is approved, details of these borrowings ratios will be provided as part of the budget documentation as well as the likely trend of these ratios from the Long Term Financial Plan.

3.5 BORROWINGS

Borrowings should be managed holistically and only sourced when funding is needed, and not for a specific project. Cash and investments where available should be used in preference to acquiring additional debt.

The decision on the type of borrowing and interest rate arrangements shall take into account future cash flow implications of the Long Term Financial Plan, inter-generational equity and the cost of debt at the time the borrowing is made giving due regard to minimising exposure to interest rate movements. Management shall not speculate on interest rate movements.

While the purpose of the borrowing and the nature of the assets being funded are matters for consideration, the above factors are more relevant to the decision on the type of borrowing and interest rate arrangements.

3.6 BORROWING REDEMPTION

When surplus funds exist, the decision to repay borrowings shall be made based on the facts available at the time giving due regard to minimising the overall cost to the Corporation.

3.7 RISK MINIMISATION

All Treasury activities will be undertaken in a manner that minimises risk to Council. In particular:

- Council approval is required for all new borrowings.
- There shall be appropriate reporting and monitoring of investments, borrowings and treasury operations.

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- Consideration shall be given to the use of hedging and other financial arrangements but only as a mechanism to reduce interest rate risk exposure.

3.8 INTEREST RATE RISK EXPOSURES

Council considers interest rate risk exposure for both fixed and variable interest rate borrowings in order to minimise net interest costs on average over the longer term and at the same time manage interest rate movement risks within acceptable limits.

In order to spread its exposure to interest rate movements, Council aims to have a variety of maturity dates on its fixed interest rate borrowings over the available maturity spectrum.

Council has established, and makes extensive use of, a long-term variable interest rate borrowing facility that requires interest payments only and that enables any amount of principal to be repaid or redrawn at call. The redraw facility provides Council with access to liquidity when needed.

3.9 REPORTING

Quarterly Council receives a specific report regarding treasury management performance relative to this policy document. The report highlights:

- 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 and an estimate of the average of these proportions across this period along with key reasons for significant variances compared with the targets specified in this policy.

4. LEGISLATIVE REQUIREMENTS AND CORPORATE POLICY CONTEXT

4.1 LEGISLATIVE PROVISIONS

The legislative requirements relating to investments are found in the Investment Policy. Details of the relevant sections of legislation for the rest of the treasury function are summarised below:

Chapter 8 of the *Local Government Act 1999* – Sections 122 and 123 - provides that a Council should have strategic plans and an annual budget. This implies a level of forward planning in relation to the management of the Council's funds. A related provision that requires certain prudential information to be gathered and analysed in relation to major projects is found in Section 48 of the Act.

Chapter 9 of the *Local Government Act 1999* - Sections 133 and 134 - provides that a Council can:

- Obtain funds from a range of sources, including taxation and borrowing, appropriate to the Council carrying out its functions (a very broad power);
- Borrow funds and enter into arrangements to protect against adverse interest rate movements on borrowings; and
- Invest Council funds.

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Section 44 Part 1c of the *Local Government Act 1999* provides that a Council must approve all loans and clearly states that the power to borrow money can not be delegated from the Council itself.

The *Local Government (Financial Management) Regulations – Regulation 5* – requires the preparation of a Budgeted Cash Flow Statement covering Councils' Long Term Financial Plans and Budgets as part of the Council's annual budget papers.

4.2 CORPORATE POLICY CONTEXT

The Treasury Policy supports the Council's Strategic Management Plan and associated Strategies, Business Plans and budgets.

The Council's Investment Policy, set out separately in accordance with the requirements of the legislation, also forms part of the Treasury Policy.



COUNCIL POLICY

INVESTMENT POLICY

Forming part of the Treasury Policy

Approved by: Council on 30 June 2008

Subsequent Amendments

Document Owner

Position: Manager Finance (Michael Carey)

Phone: 8203 7230

Next Review June 2009

Investment Policy

1. INTRODUCTION

The Local Government Act 1999 (LG Act), introduced requirements for Councils to review and report on the performance of their Investments. These requirements obligate the Officers who are responsible for investing Council funds to act with the care, diligence and skill that a prudent person of business would exercise in managing the affairs of other persons and be aware of their responsibilities.

This Investment Policy forms part of an overall Corporate Treasury Policy, encompassing investments, loans, cash management and associated reporting.

2. POLICY OBJECTIVES

This Investment Policy provides clear direction to management, staff and Council in relation to Investments and establishes an appropriate structure to ensure that:

- Council funds are preserved;
- Council maximises the return on surplus funds within prudent risk limits;
- Council funds are invested in accordance with its legislative and common law responsibilities; and
- Council complies with the requirements of the Local Government Act, 1999.

3. INVESTMENT POLICY STATEMENTS

3.1 INVESTMENTS

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.

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.

When investing funds Council will select the investment type which delivers the best value, having regard to investment returns, transaction costs and other relevant and objectively quantifiable factors.

3.2 APPROVED INVESTMENTS

Without approval from Council, investments are limited to:

- Deposits with the Local Government Finance Authority;
- Bank accepted / endorsed bank bills;
- Bank negotiable Certificate of Deposits;

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- Bank interest bearing deposits;
- State / Commonwealth Government Bonds.

Any other investment option requires the specific approval of Council.

3.3 RISK MINIMISATION

All investment activities will be undertaken in a manner that minimises risk to Council. In particular:

- Council approval required for investments fixed for a period greater than 12 months.
- Investment options limited to secure institutions.
- There shall be appropriate reporting and monitoring of investments.

3.4 REPORTING & REVIEW OF INVESTMENTS

3.4.1 Quarterly Reporting

A quarterly report on investment performance is included as part of the budget review process to Council. This report includes a Summary of Investment Performance showing Average Returns versus an established benchmark (Reserve Bank Published Cash Rate) and an analysis of performance for the quarter.

3.4.2 Annual Review

At least once a year Council shall receive a specific report regarding investment management performance relative to this policy document. The report shall highlight:

- For each Council investment - the quantum of funds invested, its interest rate, its term and maturity date, and changes in the quantum since the previous report; and,
- The proportion of 'at call' and fixed term investments at the end date of the reporting period, and an estimate of the average of these proportions across this period along with key reasons for significant variances compared with the targets specified in this policy.

4. LEGISLATIVE REQUIREMENTS AND CORPORATE POLICY CONTEXT

4.1 PRUDENT PERSON OF BUSINESS

The legislation governing South Australian Local Government investments is non-prescriptive. Except for a prohibition on the acquisition of shares (under Section 47 of the LG Act) and an avoidance of speculative or hazardous investments, there are no statutory limitations on council investments. However, under the LG Act, Section 139(2)(a) does require that the power of investment be exercised with the care, diligence and skill that a prudent person of business would exercise in managing the affairs of other persons. This requirement can be partly met by having in place relevant reporting requirements that ensure investments are being scrutinised regularly.

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4.2 LEGISLATIVE PROVISIONS

The legislative requirements relating to investment are found at Sections 139 and 140 of the LG Act. Details of the relevant sections of legislation are summarised below:

4.2.1 Section 139 - Investment Powers

Section 139(1) empowers councils to invest money.

Section 139(2) requires that in exercising this power of investment, councils:

- Exercise the care, diligence and skill that a prudent person of business would exercise in managing the affairs of other persons (s139(2)(a)); and
- Avoid investments that are speculative or hazardous in nature (s139(2)(b)).

Without limiting the matters that a council may consider, s139(3) provides a list of the matters that councils must consider, so far as may be appropriate in the circumstances, when exercising the power of investment.

Section 139(4) provides additional matters that a council may take into account when exercising the power of investment.

Section 139(5) permits councils to obtain independent and impartial advice concerning investments and/or the management of investments.

4.2.2 Section 140 - Review of Investments

Requires that councils review the performance of their investments at least annually.

4.2.3 Section 44 - Delegations

This section enables a council to delegate a power or function, which is vested in or conferred upon it under the LG Act or another Act. Whilst there are a number of restrictions, which prohibit the delegation of certain powers, there is no restriction upon the delegation of the powers at Section 139 or the duty at Section 140 of LG Act.

4.2.4 Section 47 - Interest In Companies

Section 47 prohibits a council from directly acquiring shares in a company. However, Section 47 of LG Act does not preclude a council from investing money in managed funds, which invests in shares.

4.2.5 Section 121 - Protection From Personal Liability

Section 121 protects council employees from civil liability for an honest act, or omission, in the exercise of their duties under the LG Act.

The Trustee Act 1936 is applicable when council acts as a trustee of funds (eg. when administering an estate). The provisions relating to investments in the LG Act 1999 are based upon the Trustee Act.