

Policy



Policy Name	<i>Treasury Management Policy</i>
Policy/File Number	ED4.12.012
Review Frequency	Every Three Years
Attachments	nil

1. Purpose

This Policy provides direction to the Board, Management and Staff in relation to the treasury function and underpins the Authority's decision making process regarding the financing of its operations as documented in its annual budget and long term financial plan.

This policy establishes a decision framework to ensure that:

- Funds are available as required to support approved outlays;
- Interest rate and other risks are acknowledged and responsibly managed;
- A process is in place to monitor cash and anticipated future cash flows with surplus funds invested or disburse in accordance with this policy;
- The net interest costs, of the Authority and Council, associated with borrowing and investing are responsibly likely to be minimised on average over the longer term

2. Scope

This Policy applies to all investments, reserves and borrowings and ensures that the Authority maximises the return on surplus funds and minimises financial costs by:

- Assessing levels of risk;
- Utilising surplus funds to reduce or defer borrowings that would otherwise be necessary;
- Investing and borrowing in accordance with its legislative and common law responsibilities.

3. Policy Statement (Summary)

The Authority is committed to adopting and maintaining a long term financial plan and operating in a financially sustainable manner

4. Legislation and Compliance

The Victor Horse Tram Authority is subject to Local Government Act 199 and Local Government (Financial Management) Regulations 2011.

Borrowings

Section 44 of the Local Government Act (the Act) provides that the Authority cannot delegate the power "to borrow money or to obtain other forms of financial accommodation".

Pursuant to *Section 122 of the Act*, the Authority must have a long-term financial plan as part of its suit of strategic management plans.

These documents must include:

- The sustainability of a the Authority's financial performance and position;
- The maintenance, replacement or development needs for infrastructure within this area;
- Proposals with respect to debt levels; and
- The identification of any anticipated or predicted changes that will have a significant effect upon the cost of the Authority's activities/operations.

Section 134 of the Act requires the Authority to consider independent expert advice before entering into particularly complex and sophisticated types of borrowing arrangements.

Investments

Section 47 of the Act, the Authority is prohibited from directly acquiring shares in a company.

Section 139 of the Act empowers the Authority to invest and requires 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 and to avoid investments that are speculative or hazardous in nature.

Section 140 of the Act requires the Authority to review the performance of its investments at least annually.

5. Definitions

Financial Sustainability occurs when expenditure, revenue raising and service level decisions are made such that planned long term service and infrastructure levels and standards can be achieved without unplanned increases in Council contributions.

6. Policy Content

6.1 Treasury Management Strategy

The Authority's operating and capital expenditure decisions are made based on:

- identified need and benefit relative to other expenditure options;
- cost effectiveness of the proposed means of service delivery; and
- affordability of proposals having regard to the Authority's long term financial sustainability, including consideration of the cost of capital.

The Authority manages its finances holistically in accordance with its Charter and overall financial sustainability strategies and targets. This means the Authority will:

- 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;
- 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.

6.2 Borrowings

The Authority has the power to borrow money as per the Charter as follows:

- 1.9.3.1 in accordance with a Budget adopted by the Authority and approved by Council as required by the Act or this Charter;
- 1.9.3.2 with the prior approval of Council

All borrowings taken out by the Authority, unless otherwise approved by Council, as per the Charter:

- 1.9.4.1 must be from the Local Government Finance Authority; and
- 1.9.4.2 in the case of fixed term loans, must be drawn down within a period of 24 months from the date of approval

Borrowing requirements will be included in the Budget each year for approval by Council.

6.2.1 Fixed Interest Rate Borrowings

To ensure an adequate mix of interest rate exposures, the Authority will structure its portfolio of borrowings to progressively achieve and thereafter maintain on average in any year, not less than 30% of its gross debt in the form of fixed interest rate borrowings.

To spread its exposure to interest rate movements, the Authority will aim to have a variety of maturity dates on its fixed interest rate borrowings over the available maturity spectrum.

In circumstances where the Authority needs to raise new fixed interest rate borrowings it will consider using medium to long-term borrowings (3 years or more duration) that:

- require interest payments only; and
- allow the full amount of principal to be repaid (or rolled over) at maturity.

The Authority also will ensure that no more than 30% of its fixed interest rate borrowings mature in any year.

6.2.2 Variable Interest Rate Borrowings

The Authority will structure its portfolio of borrowings to progressively achieve, and then maintain, not less than 30% of its gross debt on average in any year in the form of variable interest rate borrowings.

6.3 Investments

The Authority has the power to:

- 1.8.1.5 open and operate bank accounts
- 1.8.1.10 invest surplus funds in the manner described in Section 139 of the Act as if the Authority were a 'council' and review those investments in the manner described in Section 140 of the Act as if the Authority were a 'council.'

Authority 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.

The Authority's 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 the Authority's variable interest rate borrowing facility. Investments fixed for a period greater than 12 months are to be approved by the Council.

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

The Authority may from time to time invest surplus funds in:

- deposits with the Local Government Finance Authority; and/or
- bank interest bearing deposits.

Any other investment requires the specific approval of the Council. Where the Council authorises any investments of a type outside of those specified above, the amount so invested will be cumulatively limited to no more than 20% of the average level of funds expected to be available for investment by the Authority over the duration of the specific authorised investments.

6.4 Reporting

At least once a year the Authority Board shall receive a specific report regarding treasury management performance relative to this policy document.

The report shall highlight:

- for each borrowing and investment - the quantum of funds, its interest rate and maturity date, and changes in the quantum since the previous report;
- the average balance of funds held in non-investment accounts for the reporting period;
- 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.

7. Risk Management

The management of cash and investments is a high risk activity and the Authority must ensure that sound strategies are in place to minimise exposure to unfavourable interest rates and restrictions on their availability. Similarly, the Authority should ensure that borrowings are managed to minimise exposure to unfavourable interest rates and repayment terms. The utilisation of the Local Government Finance Authority provides guaranteed facilities for both investment and borrowing activities.

8. Implementation/Delegations

The General Manager is delegated authority to implement this policy.

The Authority cannot delegate the power to borrow money or to obtain other forms of financial accommodation, therefore all proposed borrowings are approved via the budget in order to comply with *Section 44 of the Local Government Act 1999*.

9. Related Documents

Long Term Financial Plan (to be developed)
 Asset Management Plans (to be developed)

10. Availability of Policy

This policy is available on Victor Harbor Horse Tram website at www.horsedrawntram.com.au. It may also be inspected or purchased at the Principal Office of the City of Victor Harbor, 1 Bay Road, Victor Harbor.

Document History

Version	Document	Action	Date
1.0	Approved version	Victor Harbor Horse Tram Authority endorsement VHHTA08	3/12/18