PURPOSE

The objective of the Treasury Policy is to ensure long-term financial sustainability of Council. Treasury activities will therefore be managed to ensure the clear, prudent, cost-effective and comprehensive management of Council’s financial risks whilst reflecting the needs of stakeholders. Ensuring Treasury activities are in accordance with its legislative responsibilities under the Local Government Act 1999 and common law responsibilities.

Operational risk, arising from the management of financial risk is implicitly addressed through this Policy and includes appropriate segregation of duties, maintenance of accurate records, reconciliation of key accounts, and monitoring of financial risk management activities by senior management and Council.

The key financial risks this policy seek to address are:

▪ Liquidity Risk
▪ Borrowing Risk
▪ Cash Investment Risk
▪ Interest Rate Risk
▪ Foreign Currency Risk
▪ Credit Risk

STATEMENT

To achieve the purpose, financial risks are managed centrally to ensure alignment of with Council’s Strategic objectives. This enables Council to optimise access to debt capital and ensure that Treasury operates within a controlled environment.

In assessing and addressing risk the following must be considered:

▪ Council’s ‘risk appetite’;
▪ ‘User pays’ and inter-generational equity principles;
▪ The ability to service debt;
▪ Speculative transactions are not permitted;

Application of this document

This document is approved by Council and no part of the document may be amended without Council approval. The approved document includes the body of the document and any explanatory documents. The policy is to be reviewed and approved by Council on a biennial basis. The policy is applicable to the whole organisation including any wholly owned subsidiaries.

Type of Borrowings

Council’s net borrowing requirements will be reviewed annually as part of the Business Plan & Budget development and update of the Long Term Financial Plan.
Borrowings may be structured as a mixture of short and long-term, fixed and floating interest rates. Borrowings for revenue-generating investments should match the business case assumptions.

For administrative efficiency, surplus cash or short-term borrowings may be utilised during the construction phase of major projects, consistent with a holistic approach to cash management.

The level of overall borrowing that Council can sustain will take into account the following:

- strategic planning for the future of the Council, covering short, medium and long-term spending and investment requirements;
- current and estimated future revenues and the ability to increase the revenue stream through rates growth, user charges, additional grant funds or business activities;
- opportunities to leverage external grant funding for non-revenue generating projects;
- inter-generational equity considerations in terms of the rate payers who benefit from the expenditure and therefore, on a user pays basis, who should pay for the costs associated with such expenditure;
- current and future funding needs for both operating and capital expenditures; and
- the ‘risk appetite’ of Council, as defined by Council’s prudential limits.

**Prudential Limit**

<table>
<thead>
<tr>
<th>Ratio</th>
<th>Requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt Service Coverage Ratio:</td>
<td>Minimum: 5 times</td>
</tr>
<tr>
<td>Leverage Test:</td>
<td>Maximum: 1.5 years</td>
</tr>
<tr>
<td>The Asset Test:</td>
<td>Maximum: 25%</td>
</tr>
</tbody>
</table>

These ratios are to be included in the Annual Business Plan & Budget document adopted by Council.

**Repayment of Borrowings**

The term of borrowings should match the need for funds. Short-term borrowings (less than one year) may be used to manage seasonal cash flow fluctuations.

Longer-term borrowings are to be managed holistically and should be paid down in line with Council’s Long-term Financial Plan.

As a guide, debt term for each type of borrowing should be as follows:

- Council’s capital requirements assume repayment of principle and interest over 20 years, including major infrastructure projects and land banking;
- Commercial Investment will assume repayment of principle and interest as defined in the business case.
Borrowing Risk Management
To manage the risk associated with Borrowings:

▪ Council approval is required for all new loans, as per Section 44 (3)(c) of the Local Government Act 1999;

▪ Loans are to be provided by institutions with long term Standard and Poors (or equivalent) credit ratings of ‘A’ (Authorised Borrowing Institutions) or better;

▪ All new loans are to be tendered to at least three Authorised Borrowing Institutions.

Liquidity Risk Management
Council’s bank account balance is to be kept at a level no greater than is required to meet immediate working capital requirements. Any surplus funds are to be applied to reduce debt or invested to generate interest income.

Council’s net borrowing requirements will be reviewed annually as part of the Business Plan & Budget development and update of the Long Term Financial Plan and following quarterly Re-forecasting of Budgets.

Council will hold, as a minimum, sufficient borrowing facilities to meet projected net debt levels for the next twelve months.

Total long term borrowings facilities should be within the prudential limits calculated at the time facilities are sought.

Cash Investment Risk Management
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.

Without further approval from Council, cash investments are limited to ‘approved investments’, including:

▪ Deposits with the Local Government Finance Authority;

▪ Bank accepted / endorsed bank bills;

▪ Bank negotiable Certificate of Deposits;

▪ Authorised Deposit Taking Institutions interest bearing deposits; and

▪ State / Commonwealth Government Bonds.

▪ Cash investments must not be speculative in nature.

Cash Investment Spread Treasury may invest:

▪ Up to 100% of investments with A-1 rated (Standard and Poors, or equivalent) organisations;

▪ Up to 25% of investments with A-2 rated (Standard and Poors, or equivalent) organisations for periods of 90 days or less; and

▪ No more than $20,000,000 invested with any individual rated organisation.
Interest Rate Risk Management
- Borrowings will be held and managed on a holistic basis;
- Borrowings may be structured as a mix of short and long-term loans with fixed and floating interest rates.
- Investments and borrowings will be actively managed to minimise net interest costs;
- Investments and borrowings should have a variety of maturity dates in order to spread exposure to interest rate movements and manage cash flow requirements; and

Foreign Currency Risk Management
Potential sources of Council’s foreign currency exposure include:
- purchases of goods and services in a foreign currency; and
- purchases of capital equipment priced in foreign currency, or subject to price change due to relative movements in exchange rates.

Foreign currency hedges (in the form of forward exchange contracts) may be used to mitigate the risks of significant adverse currency movements but must not be speculative in nature. Foreign exchange options and other derivative instruments will not be used.

The Procurement function should notify Treasury as soon as any potential foreign currency exposures are identified. Foreign currency exposures in excess of AUD 100,000 must be hedged.

Hedges will be taken out with institutions holding a minimum Short-Term rating of A-2 or better, (Standard & Poors or equivalent). Treasury must obtain quotes from at least two unrelated financial institutions, to ensure best value is achieved.

Credit Risk Management
Credit risk may arise from financial institutions with whom Council has borrowings or cash deposits, customers and members of the public who have a financial liability to Council, or suppliers contracted to deliver a service or project.

To mitigate avoidable credit risks:
- Borrowings will only be held with financial institutions with long-term Standard & Poor’s (or equivalent) credit ratings of A or better;
- Cash deposits will only be held with financial institutions with short-term Standard & Poor’s (or equivalent) credit ratings of A-2 or better;
- Where required by Procurement Policy, key suppliers will be subject to independent credit assessment (e.g. Dun & Bradstreet report) prior to awarding new contracts;
- Payments to suppliers in advance of delivery are subject to approval by Council’s Procurement Manager.
Authorised Arrangements

The Treasury function should actively seek to minimise the number of different bank accounts operated by Council or its business entities. Opening and closure of bank accounts may only proceed with written authorisation from the Chief Executive Officer.

All new borrowing arrangements will be approved by Council, as required by Section 44 (3)(c) of the Local Government Act 1999. The power to borrow money cannot be delegated from the Council itself.

Council approval of borrowing requirements for the upcoming year is included in the Annual Business Plan & Budget adoption. Details of the effects of the new borrowings on the applicable borrowing ratios are to be provided with the budget documentation, including the trend of these ratios in the Long Term Financial Plan.

Where the required borrowing has increased following a Council approved quarterly re-forecast, this will constitute Council approval for the additional borrowings.

Reporting Requirements

Monthly a Borrowings & Cash Investments Summary will be provided to the Executive Leadership outlining the following:

▪ for each borrowing and cash investment - the balance of funds, its interest rate and maturity date, and changes in the balance since the previous report;
▪ a summary of interest income and expenditure variance from budget for the month and year to date;
▪ Prudential limit ratios monitored daily and reported at the end of each month; and
▪ a summary of foreign currency exposures, hedges in place at reporting date, and details of any new or executed hedges for the month and year to date.

Quarterly a report on borrowing and cash investment performance will be included as part of the quarterly budget review to Council. The report will highlight:

▪ for each borrowing and cash investment - the balance of funds, its interest rate and maturity date, and changes in the balance since the previous report;
▪ the proportion of fixed interest rate and variable interest rate borrowings at the end of the reporting period;
▪ a summary of interest income and expenditure variance from budget for the quarter and year to date;
▪ Prudential limit ratios monitored daily and reported at the end of each quarter; and
▪ a summary of foreign currency exposures, hedges in place at reporting date, and details of any new or executed hedges for the quarter and year to date.

Prudential limit ratios are included in the Annual Business Plan & Budget document adopted by Council.
Any breaches of the Prudential limits will be reported with remediation actions to CEO immediately and reported as part of the quarterly report on borrowing and cash investment performance.

**OTHER USEFUL DOCUMENTS**

- related documents
  - n/a

- relevant legislation
  - Local Government Act (SA) 1999
  - Local Government (Financial Management) Regulations 2011

**GLOSSARY**

Throughout this document, the below terms have been used and are defined as:

**Amount Available for Projects**: Surplus operating income after meeting operating expenditure, before interest expense.

**Asset Test Ratio**: The percentage of total borrowings to Council’s saleable property assets. Calculated as:

\[
\frac{\text{Total Borrowings}}{\text{Total Saleable Property Assets}}
\]

(‘Saleable Property Assets’ = Total Real Property Assets LESS Landmark Public Buildings, Park Lands and Buildings on Park Lands)

**Authorised Deposit Taking Institutions**: financial institutions in Australia which are supervised by the Australian Prudential Regulation Authority (APRA) and authorised under the Banking Act 1959 (Cwlth) to accept deposits from the public.

**Borrowing Risk**: That Council is unable to secure borrowed funds when required.

**Cash Investment Risk**: Cash investment funds are not preserved resulting in Council suffering financial loss from investment activities

**Credit Risk**: The risk of financial loss occurring from a counter-party in a transaction with Council being unable or unwilling to meet its obligations.

**Debt Service Coverage Ratio**: The number of times Council’s annual ‘Amount Available for Projects’ can service annual principle and interest commitments. Calculated as:

\[
\frac{\text{Amount Available for Projects}}{\text{Annual Principal & Interest Payments}}
\]

**Foreign Currency Risk**: The risk of financial loss due to variation in rates of exchange used to convert foreign currency transactions

**Interest Rate Risk**: The risk of financial loss from adverse movements in interest rates applicable to borrowings and/or cash investments.

**Inter-Generational Equity**: When assessing investment & borrowing decisions, the consideration given for the “generation of rate payers” who will derive the substantive benefits versus those who will ultimately pay (through Council rates and user charges).

**Leverage Test Ratio**: Total borrowings expressed as a multiple of the annual ‘Amount Available for Projects’. Calculated as:

\[
\frac{\text{Total Borrowings}}{\text{Amount Available for Projects}}
\]

**Liquidity Risk**: That Council have a lack of available funds to meet short-term financial commitments.
Standard & Poor’s rating: A Standard & Poor’s issue credit rating is a forward-looking opinion about the creditworthiness of an obligor with respect to a specific financial obligation, a specific class of financial obligations, or a specific financial program. Issue credit ratings can be either long-term or short-term.

Long-term Obligation Ratings:

AAA
An obligation rated 'AAA' has the highest rating assigned by Standard & Poor's. The obligor's capacity to meet its financial commitment on the obligation is extremely strong.

AA
An obligation rated 'AA' differs from the highest-rated obligations only to a small degree. The obligor’s capacity to meet its financial commitment on the obligation is very strong.

A
An obligation rated 'A' is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher-rated categories. However, the obligor’s capacity to meet its financial commitment on the obligation is still strong.

Short-term Obligation Ratings:

A-1
A short-term obligation rated 'A-1' is rated in the highest category by Standard & Poor's. The obligor's capacity to meet its financial commitment on the obligation is strong. Within this category, certain obligations are designated with a plus sign (+). This indicates that the obligor's capacity to meet its financial commitment on these obligations is extremely strong.

A-2
A short-term obligation rated 'A-2' is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher rating categories. However, the obligor's capacity to meet its financial commitment on the obligation is satisfactory.

ADMINISTRATIVE

As part of Council’s commitment to deliver the City of Adelaide Strategic Plan, services to the community and the provision of transparent information, all policy documents are reviewed for currency at least annually as part of the review of delegations. Those requiring detailed consideration are flagged in the current forward Council Policy Program.

review history:

ACC2018/163534: adopted by Council, date 11 December 2018, decision ID #18906
ACC2014/30423: adopted by Council, 22 October 2013, decision ID #13541

contact:

For further information contact the Finance Program

City of Adelaide
25 Pirie ST, Adelaide, SA
GPO Box 2252 ADELAIDE SA 5001
+61 8 8203 7203
city@cityofadelaide.com.au