

POLICY STATEMENT

The Treasury Management Policy exists to ensure sound management of Southern Region Waste Resource Authority's (SRWRA) financial transactions with regards to borrowings and investments, ensuring compliance with relevant legislation.

This policy provides clear direction to the SRWRA Management and staff in relation to the treasury function. It outlines how borrowings will be raised and how cash and investments will be managed. It underpins SRWRA's decision-making regarding the financing of its operations as documented in its annual budget, long-term financial plan, projected and actual cash flow receipts and outlays.

SRWRA is committed to adopting and maintaining a long-term financial plan and operating in a financially sustainable manner.

POLICY PRINCIPLES

The objective of the Treasury Management Policy is to establish a decision framework to ensure that:

- funds are available as required to support approved outlays.
- interest rate and other risks (e.g. liquidity and investment credit risks) are acknowledged and responsibly managed.
- SRWRA maximises the return on surplus funds.
- the net interest costs associated with borrowing and investing are reasonably likely to be minimised on average over the longer term.

POLICY SCOPE

SRWRA will decide operating and capital expenditure on the basis of:

- 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 SRWRA's long-term financial sustainability (including consideration of the cost of capital and the impact of the proposal on SRWRA's Net Financial Liabilities and Debt Servicing ratios).

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

- maintain target ranges for both its Net Financial Liabilities and Debt Servicing ratios;
 - Net Financial Liabilities ratio: Between 0% - 60%
 - Debt Servicing Ratio: Between 0-5%
- borrow funds in accordance with the requirements set out in the Long-Term Financial Plan.
- not utilise borrowings to finance operating activities or recurrent expenditure.
- endeavour to fund all capital renewal projects from operating cash flow and borrow only for new/upgrade capital projects, having regard to sound financial management principles and giving consideration to inter-generational equity for the funding of long term infrastructure projects.

- only retain and quarantine money for particular future purposes where required by legislation or by contractual 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.

BORROWINGS

The main objective of SRWRA's debt management is to ensure that the financing needs and its payment obligations are met at the lowest possible cost over the medium to long run, consistent with a prudent degree of risk.

All borrowings will be subject to Board approval on the recommendation of the Chief Executive Officer and in accordance with Charter Item 1.7 as referenced below:

1.7 Borrowings and Expenditure

1.7.1 The Authority has the power to incur expenditure and/or to borrow money:

(a) in accordance with the approved budget of the Authority; or

(b) for the purposes of unbudgeted expenditure in accordance with (c) and (d) below; or

(c) pursuant to the provisions of subclauses 1.6.7 and 1.7.4 of this Charter; or

(d) with the prior approval of two-thirds of the Constituent Councils for amounts which do not exceed 25% of the value of the net assets of the Authority and with the prior approval of all the Constituent Councils for other amounts, which approval must be evidenced by formal resolution of the Councils, or

(e) otherwise for genuine emergency or hardship as provided for in the Act.

1.7.2 For the purpose of exercising the powers at Clause 1.7.1 of this Charter the Authority may borrow money from the Local Government Finance Authority or from a registered bank or financial institution within Australia.

1.7.3 For the purposes of Clause 1.7.2 but subject to Clause 1.7.4 of this Charter borrowings of the Authority:

(a) must not be used for the purpose of funding operational costs;

and

(b) where the borrowings are undertaken with the prior approval of the Constituent Councils, must be drawn down within a period of 24 months from the date of approval.

1.7.4 The Authority may operate an overdraft facility or facilities as required provided that the overdrawn balance must not exceed \$100 000 in total without the prior approval of two-thirds of the Constituent Councils.

To ensure an adequate mix of interest rate exposures, SRWRA will structure its portfolio of borrowings to ensure an optimal Treasury Management position, taking into account all borrowing options including fixed and variable terms. In order to spread its exposure to interest rate movements, SRWRA will aim to have a variety of maturity dates on its fixed interest rate borrowings over the available maturity spectrum.

SRWRA will establish, and make extensive use of, a long-term variable interest rate borrowing facility/ LGFA's Cash Advance Debenture facility that requires interest payments only and that enables any amount of principal to be repaid or redrawn at call. The re draw facility will provide SRWRA with access to liquidity when needed. Borrowing from Constituent Councils may be considered as another option.

INVESTMENTS

SRWRA 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.

SRWRA 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 could otherwise be applied to cost-effectively defer the need to raise a new borrowing or reduce the level of SRWRA's variable interest rate borrowing facility.

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

Investments fixed for a period greater than 12 months are to be approved by the SRWRA Board.

To reduce the level of risk embodied in treasury operations, it is appropriate to limit investments made by SRWRA to secure financial institutions. Therefore, without approval from the Board, investments are limited to:

- deposits with the Local Government Finance Authority of South Australia (LGFA);
- State/Commonwealth Government Bonds.
- bank interest bearing deposits;
- bank accepted/endorsed bank bills;
- bank negotiable Certificate of Deposits;
- Offer of funds to Constituent Councils.

When considering which financial institutions surplus funds will be invested with, SRWRA will only invest funds with those with a long term credit rating of at least BBB and short term credit rating of A1.

All investments must be made exercising care and diligence and considering the following:

- the credit rating of the prospective institution.
- 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.
- the Government guarantee on the investment.

To ensure competitive rates for investments are achieved, quotations must be obtained from authorised institutions on investments of more than \$1,000,000.

Investment of surplus funds outside of the above investment choices must be reported to the SRWRA Board for approval. Examples of specific investment

activities SRWRA would not participate in include shares in private/public companies, listed or unlisted property trusts and derivatives.

Funds must be invested in the name of the Authority and any redemption must be paid into the operating account of the Authority.

DRAWING OF CASH FROM JOINT VENTURES

Regular drawings of cash from profit of Joint Ventures will be made from at the intervals and amounts as agreed by the respective Joint Venture Committees.

REPORTING

In accordance with Section 140 of the Local Government Act, a report will be presented to the Board annually which will summarise the performance of the investment portfolio. This report will review the investment performance against prior years and appropriate benchmarks including the average RBA cash rate target.

ROLES AND RESPONSIBILITIES

The role of SRWRA Management is to ensure that:

- The Board is to approve all borrowings, as well as investments for a period of greater than 12 months.
- Chief Executive Officer is responsible for making recommendations with regards to borrowings.
- Chief Executive Officer is responsible for ensuring all other tasks are conducted in accordance with the policy.

DEFINITIONS

Financial Assets include cash, investments, receivables, and prepayments. Equity held in a SRWRA business is normally regarded as a financial asset but is excluded for the purpose of calculating Local Government published financial indicators. (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 services.

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 SRWRA joint venture, inventories and land held for resale.

Debt Service Ratio indicates the ability of SRWRA to meet its loan repayments (Principal and interest repayments).

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

Non-financial or Physical Assets means infrastructure, land, buildings, plant, equipment, furniture, fittings, and inventories.

Operating Revenues are "operating revenues" as shown in the Income Statement but exclude profit on disposal of non-financial assets, grants and contributions

received specifically for new/upgraded infrastructure and other assets, e.g. from a developer.

REFERENCES:

SRWRA Charter – Item 1.7 Borrowings and Expenditure

Related SRWRA Policies:

- Asset Management Policy
- Disposal of Land and Assets Policy

LEGISLATION

For Borrowings:

- Local Government Act 1999
 - Section 44/Section 122/Section 134
- Regulations 5 and 5B of the Financial Management Regulations under the Act

For Investments

- Local Government Act, 1999
 - Section 47/Section 139/ Section 140

Policy Review

This policy will be reviewed every 3 years and at other times if any significant new information, legislative or organisational change warrants an amendment to this document.

Document History

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Document Control

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