## 1. INTRODUCTION

This Policy provides direction to Council in relation to the treasury function.

Council is committed to adopting and maintaining a Long Term Financial Plan (LTFP) and operating in a financially sustainable manner to assist it to determine affordable service levels and revenue raising needs. The LTFP also provides projections of future cash flow availability and needs.

## 2. PURPOSE

The purpose of this policy is to underpin Council's decision-making in the financing of its operations in the context of its annual budget, LTFP, cash flow, borrowings and investments.

## 3. POLICY STATEMENTS

This policy provides direction to Council in relation to the treasury function and establishes a decision making framework to ensure:

- Funds are available as required to support approved capital and operational expenditure; and
- Interest rate risks and other risks (e.g. liquidity risks and investment credit risks) are acknowledged and responsibly managed, while:
  - Minimising the net interest expenses associated with borrowings and investments over the longer term; and
  - Ensuring that outstanding debt is repaid as quickly as possible and therefore that the gross level of debt held by Council is minimised.

### 3.1 Treasury Management Strategy

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

- Identified community needs and benefits relative to other expenditure options;
- Cost effectiveness of the proposed means of service delivery; and
- Affordability of projects and proposals having regard to Council's long term financial sustainability, including consideration of the cost of capital and the impact of the project or proposal on Council's financial and sustainability ratios.

The consideration whether borrowings are required to fund the operating or capital expenditure will be addressed as a separate decision to the commitment to the operating/capital expenditure. However, overall potential impact on the Council's debt and/or equity position will be considered for all major operating and capital expenditure decisions. The treasury management decision will be in accordance with the criteria specified in this policy.

Council manages its finances holistically in accordance with its overall financial sustainability strategies, ratios and targets. This means Council will only borrow funds when it needs funds corporately, rather than basing this decision on the funding requirements of the particular operating or capital project.

Council recognises that on average the rate of return it can receive from investing money is less than the interest rate charged on borrowed funds. For this reason, it will not retain and/or quarantine money for particular funding purposes (except where so required by legislation or agreement with other parties). Instead, Council will seek to apply any funds it has that are not immediately required to meet approved expenditure, to reduce its level of borrowings or to defer and/or reduce the level of new borrowings that would otherwise be required.

For example: where funds are received for specific purposes, these funds will be pooled by Council based on its treasury management policy, independent of the need to use these funds at a later stage for the specific purposes for which the funding was received.

### 3.2 Annual Debt Limit

On an annual basis, Council will consider its debt limit to ensure that funds are available as required to support approved outlays and to account for working capital requirements. The annual debt level will vary from the opening and closing debt disclosed in the Annual Business Plan and Budget due to the timing of receipt of funds from income and the timing of payments for the provision of goods and services.

### 3.3. Fixed and Variable Interest Rate Borrowings

Council recognises that future movements in interest rates are uncertain. It considers that by having a combination of different termed fixed and variable interest rate borrowings it is, in the longer term, well positioned to limit its interest rate risk and therefore its net interest costs over the longer term. Council will review its mix of fixed verses variable borrowings / loans on an annual basis.

In order to spread its exposure to interest rate movements, Council aims, subject to its overall debt level, to have a variety of maturity dates on its borrowings.

Fixed Interest Rate Borrowings may be either of a:

- Credit foncier basis, that is incorporating regular principal and interest repayments; or
- Fixed interest rate payments only, with or without terms that allow the full amount of principal to be repaid, or rolled over at maturity.

Council recognises that there is usually a margin between borrowing and investment rates and that it can generate savings by structuring its portfolio of borrowings so that cash inflows that are surplus to short or medium term needs can be applied, in the first instance, to reduce the level of borrowings that would otherwise be necessary. For this reason Council will, as necessary, restructure its portfolio of borrowings, as old borrowings mature and new ones are raised to provide for this level of flexibility.

Council will make use of variable interest rate borrowings facility (for example the Local Government Financing Authority's (LGFA) Cash Advance Debenture (CAD) facility) that requires interest payments only and that enables any amount of principal to be repaid or redrawn at call. The redraw facility will provide Council with access to liquidity when needed. The outstanding level of draw-downs on the facility may vary significantly during a year and between years with the timing and extent of cash inflows and outflows.

### 3.4 Investments

Council is committed to openness and transparency in its financial management practices and sets out to ensure that investments are made in such a way as to maximise returns, while ensuring that risks are minimised and maintaining compliance with appropriate legislation.

The *Local Government Act 1999* sets requirements for councils to review and report on the performance of their investments. All investments are to be made in accordance with the provisions of the Local Government Act 1999, in particular attention to Sections 139 and 140. These requirements obligate the officers who are responsible for investing Council's funds to act with 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.

To maximise returns to Council for funds invested, the bank account balance of Council is assessed on a regular basis and be set at a level that meets Council's operational requirements. Council management may from time to time invest surplus funds with the LGFA or other financial institutions subject to these investments being capital-guaranteed.

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 cost-effectively either by deferring the need to raise a new borrowing or by reducing 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.

Investments fixed for a period greater than 12 months are to be approved by Council.

### 3.5 Reporting

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

- For each Council borrowing and investment, the quantum of funds, its interest rate and maturity date, interest income/expense and changes in the quantum since the previous report; and,
- 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 along with key reasons for significant variances compared with the targets specified in this policy.

## 4. REVIEW & EVALUATION

This policy is scheduled for review by Council's Audit Committee biennially. Additionally, it will be reviewed when considered necessary. For example: following any legislative changes that require update to the policy.

## 5. AVAILABILITY OF POLICY

This policy will be available for inspection at Council's principal office during ordinary business hours and on the Council's website www.mountgambier.sa.gov.au. Copies will also be provided to interested members of the community upon request, and upon payment of a fee in accordance with Council's Schedule of Fees and Charges.

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| File Reference: | AF18/48 |
| Applicable Legislation: | Local Government Act, 1999<br>Local Government (Financial Management) Regulations 2011 |
| Reference:<br>Community Plan 2016 - 2020 | Goal 3, Our Diverse Economy |
| Related Policies: | I105 Internal Controls |
| Related Procedures: | Nil |
| Related Documents: | Financial Sustainability Information Papers:<br>• 01 Financial Sustainability<br>• 08 Long Term Financial Plans<br>• 09 Financial Indicators<br>• 10 Debt<br>• 15 Treasury Management |

## DOCUMENT DETAILS

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