TOWN OF GAWLER POLICY

Policy Section:	**6. Finance & Corporate Services**
Policy Name:	**Treasury Management**
Classification:	**Public – Council Policy**
Adopted:	**26 March 2019**
Frequency of Review:	**Annual (per resolution of Council)**
Last Review:	**February 2019**
Next Review Due:	**February 2020**
Responsible Officer(s):	**Manager Finance and Corporate Services**
Policy and Code of Practice Manual File Ref:	**CC10/2601**
Council File Reference:	**CR19/7596**
Legislation Authority:	**Local Government Act 1999**
Related Policies and Codes:	**N/A**
Related Procedures:	**N/A**

1. INTRODUCTION

1.1 An explicit set of policies and procedures is a necessary tool for sound financial management providing the following benefits:

(a) **Public accountability and transparency** – Policies and procedures publicly document the Council's position on which it will base its decisions. They demonstrate the Council's commitment to sound financial management and establish transparency for audit purposes;

(b) **Ensuring a considered approach** – The formal adoption of carefully documented policies and procedures helps ensure that the Council's position on each issue has been properly considered, having regard to alternative approaches and the wider policy and statutory context;

(c) **Consistency of decision making** – By adopting clear Council policies and procedures a consistent basis for decision-making over time is established. While the Council can make a decision contrary to its adopted policy, it needs a deliberate decision to do so which helps to ensure that proper consideration has been applied;

The electronic version of this document is the controlled version. Printed copies are considered uncontrolled. Before using a printed copy, verify that it is the current version.

(d) **Clear guidance for staff** – Explicit policies and procedures set out the required approach, responsibilities and processes for staff to properly administer the financial business of the Council in accordance with its wishes and consistent with statutory requirements and sound financial management practices. This in turn protects staff from allegations of financial mismanagement as long as the policies and procedures are followed.

2. PURPOSE

2.1 This policy provides clear direction to management, staff and Council in relation to the treasury function. It underpins Council's decision-making regarding the financing of its operations as documented in its annual budget and long-term financial plan and associated projected and actual cash flow receipts and outlays.

2.2 Council is committed to operating in a financially sustainable manner and maintains a Long-term Financial Plan (updated at least annually) to assist it to determine affordable service levels and revenue raising needs. This Plan also provides projections of future cash flow availability and needs.

3. POLICY OBJECTIVES

This Treasury Management Policy establishes a decision framework to ensure that:

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

4. POLICY STATEMENTS

4.1 Treasury Management Strategy

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

(a) maintain target ranges for its Net Financial Liabilities ratio;
(b) not retain and quarantine money for particular future purposes unless required by legislation or agreement with other parties;
(c) borrow funds in accordance with the requirements set out in its Long-term Financial Plan;
(d) 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.

The electronic version of this document is the controlled version. Printed copies are considered uncontrolled. Before using a printed copy, verify that it is the current version.

4.2 Interest Rate Risk Exposures

4.2.1 Council will manage its loan borrowings portfolio 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.

4.2.2 Fixed Interest Rate Borrowings

4.2.2.1 To ensure an adequate mix of interest rate exposures, Council will restructure its portfolio of borrowings, as old borrowings mature and new ones are raised, to progressively achieve and thereafter maintain on average in any year, not less than **25%** of its gross debt in the form of fixed interest rate borrowings.

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

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

a) have a fixed interest rate;
b) require interest payments only; and
c) allow the full amount of principal to be repaid (or rolled over) at maturity.

4.2.3 Variable Interest Rate Borrowings

4.2.3.1 Council recognises that there is usually a significant margin between borrowing and investment rates and that significant savings can be generated by restructuring its portfolio of borrowings so that cash inflows that are surplus to immediate or short term needs can be applied in the first instance to reduce the level of borrowings that would otherwise be necessary. This is more readily and effectively achievable with variable interest rate borrowings.

Council will restructure its portfolio of borrowings, as old borrowings mature and new ones are raised, 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.

4.2.3.2 To minimise net interest costs Council will establish, and make extensive use of, a long-term variable interest rate borrowing facility (such as the Local Government Finance Authority (LGFA) Cash Advance Debenture 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 electronic version of this document is the controlled version. Printed copies are considered uncontrolled. Before using a printed copy, verify that it is the current version.

4.2.4 A policy of having at least 30% of borrowings (on average over a year) with a variable interest rate and at least 25% with a fixed interest rate can be represented diagrammatically as follows:

OPTIMUM

Fixed	Fixed or Variable	Variable

0% 25% 70%

PROPORTION OF TOTAL BORROWINGS

4.3 Investments

4.3.1 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.

4.3.2 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.

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

4.3.4 Council management may invest surplus funds in:

a) deposits with the LGFA; and/or
b) bank interest bearing deposits.

4.4 Financial Indicators (Net Financial Liabilities Ratio)

4.4.1 Net financial liabilities equals total liabilities less financial assets (excluding equity accounted investments in Council businesses).

4.4.2 Often too much focus is placed on the level of a Council's borrowings. This number has little meaning without also considering the Council's available financial assets and other liabilities.

4.4.3 Net financial liabilities is a broader and more appropriate measure of indebtedness than the level of borrowings, because it includes items such as employee long-service leave entitlements and other amounts payable as well as taking account of a Council's cash and investments.

The electronic version of this document is the controlled version. Printed copies are considered uncontrolled. Before using a printed copy, verify that it is the current version.

4.4.4 Before considering an increase in its indebtedness, Council needs to recognise that interest associated with borrowings will impact negatively on its operating result. However, a Council with significant asset rehabilitation and replacement backlogs may find that their financial sustainability is improved if they raise borrowings to finance the works needed to address these backlogs i.e. if the operational savings achieved from addressing these backlogs exceed the additional interest costs resulting from the borrowings raised, financial sustainability would be improved.

4.4.5 The **net financial liabilities ratio** is calculated by expressing net financial liabilities at the end of a financial year as a percentage of operating revenue for the year. If the ratio falls, over time, this indicates that the Council's capacity to meet its financial obligations from operating revenue is strengthening.

4.4.6 An increase in the net financial liabilities ratio will sometimes mean that a Council is incurring higher operating expenses (e.g. as a result of additional maintenance and depreciation costs associated with acquiring new assets). This will detract from the Council's overall operating result. Nevertheless a Council with a healthy operating surplus could quite appropriately decide to allow its net financial liabilities ratio to increase in order to provide additional services to its community through acquisition of additional assets without detracting from its financial sustainability.

4.4.7 There is no optimal single number or even narrow range for this indicator. What is important is that the Council understands and is comfortable with its ratio and that it has been determined based on future community needs and long-term financial sustainability.

4.4.8 Consistent with industry standards, Council will maintain its net financial liabilities ratio between **0-100%**, such that the net financial liabilities will not exceed Council's operating revenue.

4.5 Financial Indicators (Operating Surplus Ratio)

4.5.1 The Operating result is the key annual financial performance measure of a Council. The Operating Surplus Ratio, which is a statutory financial indicator, measures the operating surplus as a percentage of General and Other Rates.

4.5.2 An Operating surplus position indicates that a Council's recurrent expenditure (including depreciation) is being funded from its recurrent revenue. A recurring operating surplus is also indicative of a financially sustainable Council and addresses inter-generational inequity concerns.

4.5.3 Instances of required major peaks in the investment of fixed assets, as identified by Council's Long Term Capital Works Program, may trigger an increase in operating costs such that Council may need to incur short-term operating deficits

The electronic version of this document is the controlled version. Printed copies are considered uncontrolled. Before using a printed copy, verify that it is the current version.

4.5.4 As operating deficits are not sustainable in the longer-term, Council will target for its Operating Surplus Ratio to be between **0-10%** over any five year rolling period.

4.6 Caveat on Policy Targets

The targets in this document for:

a) Fixed Interest rate Borrowings (see 4.2.2.1)
b) Variable Interest Rate Borrowings (see 4.2.3.1)
c) Net Financial Liabilities Ratio (se 4.4.8)
d) Operating Surplus Ratio (see 4.5.4)

are guidelines for the prudent management of Council's financial resources over time.

The targets are not intrinsically unalterable, which is reflected in the fact that this policy is subject to review on a regular basis. Neither are they a bar to actions that support prudent financial management. They will be applied pragmatically. The targets may be temporarily exceeded where to do so is in the interest of the Council and its community.

Examples of such temporary situations are:

a) Council receiving windfall funds (e.g. Federal Assistance Grants) that provide a temporary cash surplus that enables the repayment of variable interest rate borrowings for a period of time resulting in the ratio of variable interest rate borrowings as a proportion of borrowings falling below 30%.
b) Council will be keeping its borrowings under continuous review and matching its need for funds with its long-term financial plan. It may be appropriate in some circumstances to convert variable interest rate borrowings to fixed interest rate borrowings and for the 70% nominal upper limit on fixed interest rate borrowings to be temporarily exceeded, depending on the timing of new capital expenditure and the likely timing of new borrowing requirements.
c) In periods of intense capital development or acquisition the level of borrowings may temporarily push the Net Financial Liabilities Ratio above 100%, with the only option to keep the ratio within the 0-100% target an increase in rates for a temporary situation. A rate increase solely for a temporary need to offset required borrowings is not an effective financial strategy and exceeding the Net Financial Liabilities target is a more appropriate option.

Similarly, in periods of intense capital development or acquisition additional operating expenses (some of which may later be capitalised) may result in operating deficits being planned for and incurred over an extended period of time, but eventually returning to an operating surplus

The electronic version of this document is the controlled version. Printed copies are considered uncontrolled. Before using a printed copy, verify that it is the current version.

4.7 Reporting

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

a) 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

b) the proportion of fixed interest rate and variable interest rate borrowings at the end date of the reporting period. Where it becomes apparent that any of the targets set out in this policy are likely to not be met then the CEO must bring this to the attention of the Council and its Audit Committee promptly. In advising the Council and its Audit Committee of the likelihood of a target not being met the CEO should give advice on:

   i. The reason or reasons why the target will not be met;
   ii. The length of time that the target will not be met;
   iii. Any potential action the Council can take to achieve the target; and
   iv. Whether the target needs to be reviewed and reset

5. REVIEW AND EVALUATION

The effectiveness of this Policy will be reviewed on an annual basis.

The Chief Executive Officer will report to Council on the outcome of the evaluation and if relevant make recommendations for amendments, alteration or substitution of a new Policy.

The Policy will not be altered or substituted so as to affect a process already commenced.

6. FURTHER INFORMATION

Further information about this Policy can be obtained by:-

Telephone: 8522 9211
Email: council@gawler.sa.gov.au
Appointment: Town of Gawler Administration Centre, 43 High Street, Gawler East
Letter: PO Box 130, Gawler SA 5118

7. AVAILABILITY OF POLICY

The Policy is available for inspection during ordinary business hours at the Council principal office, Town of Gawler Administration Centre 43 High Street, Gawler East or is available on the Council website at www.gawler.sa.gov.au.

A copy of this Policy will be provided to interested parties upon request, for a fee as contained in the Register of Fees and Charges.

The electronic version of this document is the controlled version. Printed copies are considered uncontrolled. Before using a printed copy, verify that it is the current version.