POLICY

COUNCIL

Policy Name	Treasury Management
Policy Number	CS13
Responsible Section	Finance
Responsible Department	Corporate Services
Date Last Adopted	8 March 2022
Date of Next Review	March 2025
Applicable Legislation	Local Government Act 1999
Related Governance Documents	N/A
City Plan Theme	Leadership

1. PURPOSE/OBJECTIVE

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 Business Plan and Long-Term Financial Plan. Council is committed to operating in a financially sustainable manner.

2. SCOPE

This policy has been prepared pursuant to the following sections of the Local Government Act 1999:

For Borrowings

Section 44: Delegations
Section 134: Borrowing and related financial arrangements.

For Investments

Section 47: Interest in companies
Section 139: Investment powers
Section 140: Review of investments

The borrowing guide levels contained in this policy have been informed by reference to the following publications:

- South Australian Local Government Association: Financial Sustainability Information Paper No. 9 – Financial Indicators (May 2015)
- South Australian Local Government Association: Financial Sustainability Information Paper No. 10 – Debt (February 2015)
- South Australian Local Government Association: Financial Sustainability Information Paper No.15 – Treasury Management (February 2015)
- Moody's Investors Service: Rating Methodology - Regional and Local Governments (January 2018)

3. POLICY

Principles

This Treasury Management Policy establishes 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;
- net interest costs associated with borrowing and investing are reasonably likely to be minimised on average over the longer term.

Treasury Management Strategy

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

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

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

- maintain target ranges for both its Net Financial Liabilities, Interest Payment and Debt Repayment Term ratios;
- not retain and quarantine money for 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; and
- 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.

Liquidity Risk

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

Council's net borrowing requirements will be reviewed annually as part of the Annual Business Plan development and update of the Long-Term Financial Plan. Council will hold, as a minimum, sufficient approved borrowing facilities to meet projected maximum net debt levels for the next twenty-four months.

Interest Rate Risk Exposures

Council may utilise a mixture of short and long-term borrowings with fixed and variable interest rates.

Investments and borrowings will be actively managed to minimise net interest costs. However, it is recognised that utilising a combination of variable and fixed interest rates is an appropriate strategy against adverse interest rate movements over time in certain circumstances. This may restrict short-term flexibility to repay borrowings earlier than originally planned and may incur an opportunity cost.

Borrowings

Borrowings to fund capital expenditure acquisition or renewal can be effective in linking the payment for an asset to the successive ratepayer base who will benefit over the life of the asset. This user-pays matching concept is known as inter-generational equity.

The level of borrowings that Council can sustain will consider the following factors:

- 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 over time through rates growth, user charges, additional grant funding or commercial opportunities.
- retaining capacity to respond to emerging strategic priorities, leveraging future grant funding opportunities or unforeseen cost/revenue impacts.
- Ability to service interest and debt repayment obligations from recurrent operating surplus' as per Council's Long-Term Financial Plan.

As a guide, the level of Council borrowings will be assessed within the following limits:

Ratio	Calculation	Conservative Range	Maximum	Explanation
Interest Payment Ratio	Annual Interest Payments / Annual Operating Income	1% to 5%	7%	Ensures the Council only borrows to a level that results in interest costs that are reasonably manageable in relation to the Council's level of operating income
Net Financial Liabilities Ratio	Net Financial Liabilities / Annual Operating Income	35% to 100%	200%	Ensures the total amount of debt borrowed by Council could reasonably be expected to be repaid over a period of time out of operating income.
Debt Repayment Term Ratio	Debt Repayments Due within 12 Months / Total Debt	10% to 30%	40%	Ensures the Council spreads out the debt repayment dates sa as not to create a large repayment burden in any one year

Investments

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.

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.

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

When investing funds, Council will select the investment type having regards to thefinancial institution's policies and practice with respect to Socially Responsible Investing engaging with organisations that in the majority:

- avoid causing illness, disease, and death;
- avoid destroying or damaging the environment;
- avoid treating people with disrespect;
- demonstrate a history and willingness to creating community benefit; and
- share Council's values as set out in its City Plan 2030.

Council management may from time to time invest surplus funds in:

- deposits with the Local Government Finance Authority of SA ('LGFA'); and/or
- bank interest bearing deposits.

Cash investments must not be speculative in nature and any investment other than those stated above require the specific approval of Council.

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 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; and
- the level of borrowings expressed as interest payment ratio, net financial liabilities ratio and debt repayment term ratio, versus the ranges specified in this policy, with explanations for any significant variances.

4. ROLES AND RESPONSIBILITIES

The Finance Manager is responsible for the implementation and management of the policy. Council approval is required for all new loans, on the recommendation of the Director Corporate Services, as per Section 44(3)(c) of the Local Government Act 1999.

5. DEFINITIONS

Annual Operating Income includes council rates, fees and charges, government grants, reimbursements, and other operating income.

Annual Interest Payments includes interest charges payable on loans and leases.

Borrowings or Debt includes amounts payable to financiers, including banks, LGFA and lessors of lease assets.

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

Socially Responsible Investing (also known as sustainable, socially conscious, green, or ethical investing) is any investment strategy which seeks to consider both financial return and social good to bring about a social change.