

## TREASURY MANAGEMENT

First Approved	18 May 2009
Status	LGA Recommended
Review Frequency	4 yearly or as required
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Responsible Division	Resources
Related Documents	LGA Financial Sustainability Paper 15 Alexandrina Council Long Term Financial Plan Annual Budget Policy
Applicable Legislation	<i>Local Government Act (SA), 1999, s.44, s.47, s.122, s.134, s.139, s.140, and Financial Management Regulations 5 and 5B</i>

### Introduction

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.

Council is committed to operating in a financially sustainable manner and maintains a Long Term Financial Plan to assist in determining affordable service levels and revenue raising needs. This Plan also provides projections of future cash flow availability and needs.

### Policy Objectives

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 (eg 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.

### Policy Statements

#### ***Treasury Management Strategy***

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

- identified community need and benefit relative to other expenditure options
- cost effectiveness of the proposed means of service delivery
- affordability of proposals having regard to Council's long-term financial sustainability, including consideration of the cost of capital and the impact of the proposal on Council's Net Financial Liabilities Ratio.

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

- monitor its Net Financial Liabilities Ratio projections in the Long Term Financial Plan against adopted target which currently are:

	Short Term 1-3 years	Medium Term 4-6 years	Long Term 7-10 years
Whole of Council	≤120%	≤110%	≤80%
Community Wastewater Management Schemes (CWMS)	≤250%	≤250%	≤200%
Council excluding CWMS	≤100%	≤100%	≤80%

- not retain and quarantine money for particular 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
- 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.

### ***Interest Rate Risk Exposures***

Council has set range limits for both fixed and variable interest rate borrowings 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.

#### **Fixed Interest Rate Borrowings**

To ensure an adequate mix of interest rate exposures, Council will structure its portfolio of borrowings to maintain on average in any year, not less than 30% of its gross debt in the form of fixed interest rate borrowings.

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.

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:

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

Council also will also aim to have no more than 30% of its fixed interest rate borrowings maturing in any year.

#### **Variable Interest Rate Borrowings**

Council will structure its portfolio of borrowings to maintain on average in any year, not less than 30% of its gross debt in the form of variable interest rate borrowings.

Council's variable borrowings are in the form of facilities that require interest payments only and enables any amount of principal to be repaid or redrawn at call. This provides Council with access to liquidity when needed and flexibility to pay down borrowings with excess funds. It is important to note that these are approved borrowing facilities and not an overdraft.

### ***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. Funds held for operating and working capital requirements may be held in Council's operating bank account.

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

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.

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

- deposits with the Local Government Finance Authority, and/or
- bank interest bearing deposits.

Any other investment requires the specific approval of Council. Where Council authorises any investments of a type outside of those specified above, the amount so invested will be cumulatively limited to no more than 20% of the average level of funds expected to be available for investment by Council over the duration of the specific authorised investments.

### ***Performance***

Performance relative to this policy can be determined using data available in the Council's Financial Statements. These are prepared on an annual basis and presented to the Audit Committee and Council. Information available includes:

- the value of fixed interest rate and variable interest rate borrowings at the beginning and end of the period
- the weighted average interest rate for both fixed interest and variable interest rate borrowings at the beginning and end of the period
- the timing that principle payments fall due broken down to; within the next 12 months, between 1 and 5 years and over 5 years.

### ***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.alexandrina.sa.gov.au](http://www.alexandrina.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.