Treasury Management Policy

Strategic Reference	Objective 5; Leadership Strategy 3.5; Council reports openly and transparently on its performance.
File reference	AR21/5199
Responsibility	Office of Chief Executive Officer
Revision Number	6
Effective date	March 2011
Last revised date	May 2026
Minutes reference	121/26, 074/21, 103/18, 046/17, 131/14, 104/11
Next review date	May 2029
Applicable Legislation	Local Government Act 1999 Local Government (Financial Management) Regulations 2011 Australian Accounting Standards
Related Policies	Funding Policy Rating Policy Equity Reserve Policy
Related Documents	N/A

1. Purpose

The Treasury Management Policy provides clear direction to management, staff and Council in relation to the treasury function. It underpins decision-making regarding the financing of Council operations in the 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 (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.

All investments and borrowings are to be made exercising care, diligence and skill that a prudent person of business would exercise in managing the affairs of other persons.

2. Policy Objectives

The 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;
- subject to Council's capital expenditure decisions, the gross level of debt is minimised; and the net interest costs associated with borrowing and investing are reasonably likely to be minimised on average over the longer term;
- Staff and Elected Members must ensure that any borrowings and/or investments made by Council do not give rise to a conflict of interest. Any potential or perceived conflicts of interest must be declared.

3. Definitions

"Credit Foncier Borrowings" – are borrowings for a fixed period with regular repayments where each repayment includes components of both principal and interest, such that at the end of the period the principal will have been entirely repaid.

"Financial Sustainability" -: Council's long-term financial performance and position is sustainable where planned long-term service and infrastructure levels and standards are met and maintained without unplanned increases in rates or disruptive cuts to services.

"Interest Cover Ratio" – indicates the extent to which Council's operating revenues are committed to interest expenses.

"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 Council business, inventories and land held for resale.

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

"Operating Expenses" – are operating expenses including depreciation but excluding losses on disposal of non-financial assets.

4. Treasury Management Strategy

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

- effectiveness of the proposed means of service delivery;
- identified community need and benefit relative to other expenditure options; and
- cost 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 and Interest Cover ratios).

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

- maintain target ranges for its Net Financial Liabilities Ratio
    - not retain and quarantine money for particular future purposes unless required by legislation or agreement with other parties, such as:
        - certain grant conditions may dictate that the grant funds are to be deposited into separate bank accounts

- private sector donations and sponsorship that are received to be used for specific purposes

- borrow funds when it needs cash in accordance with budgeted requirements set out in its Long Term Financial Plan and not specifically for particular projects (the only exception being when State/Federal Government or Local Government Finance Authority [LGFA] have provided discounted loans)
- apply any funds that are not immediately required to meet approved expenditure (including funds that are required to be expended for specific purposes and 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.

5. Interest rate risk exposures

Council, through the endorsement of this operational policy, sets a range limit 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.

5.1 Fixed interest rate versus variable interest rate borrowings

In recognition that future movements in interest rates are uncertain in direction, timing and magnitude, Council has set range limits for both fixed and variable interest rate borrowings to achieve its objective of minimising net interest costs over the longer term and at the same time managing interest rate movement risks within acceptable limits. Therefore Council has approved the range limits set out below.

Type of loan	**Proportion of the Debt Portfolio**	
	Minimum	**Maximum**
Flexible Rate Borrowings	20%	80%
Fixed Rate Borrowings	20%	80%

This policy is reviewed on a three-yearly basis, hence the above table may be subject to changes in subsequent reviews which may impact the suggested proportioning.

5.2 Fixed interest rate borrowings

To ensure a 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 one year, not less than 20% 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. Council will endeavour to have no more than one fixed interest rate borrowing maturing in any financial year

In circumstances where Council needs to raise new fixed interest rate borrowings it will consider using medium to long term borrowings (ie. 5 – 10+ years) that;

- have a fixed interest rate
- require interest payments only (in accordance with the Cash Advance Deposit facility administered by the Local Government Finance Authority)
- allow the full amount of principal to be repaid (or rolled over) at maturity

5.3 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 20% of its gross debt on average in any year in the form of variable interest rate borrowings.

Council will make use of a variable interest rate borrowing facility (such as the 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 redraw facility will provide Council with access to liquidity when needed.

In the event that borrowing conditions (fixed or variable) are outside of established ranges, any borrowings being undertaken that will put Council outside of established target ranges will be presented to the Audit & Risk Committee for review and to make recommendations to Council for approval.

These borrowing facilities will have a long-term maturity date and an interest rate that will vary from time to time.

The outstanding level of draw downs on the facility may vary during a year and between years with the timing and extent of cash inflows and outflows. This requires internal controls and delegations endorsed by Council.

Draw downs and repayments to and from the Cash Advanced Debenture Facility are restricted to finance staff. The Chief Executive Officer and Organisational Development Coordinator are notified when a transaction is initiated, however they have no access to drawdown. The Local Government Finance Authority portal (which administers draw downs and repayments) is safeguarded and pre-populated with Council's bank account details, which cannot be altered or deleted by any Council officer.

6. Investments

Council funds that are not immediately required for operational expenses and cannot be applied to either reduce existing borrowings or avoid the raising of new borrowings will be invested. The operating bank account balance of Council is to be kept at a level not significantly greater than is required to meet Council's immediate working capital requirements, with any surplus funds being firstly applied to repay any outstanding borrowing and then any excess is to be applied to investments.

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 rates, 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 that delivers the best value having regard to investment returns, transaction costs and minimising investment risk.

When Council is in the situation that material amounts of money is available for investing, a number of deposits will be considered with varying maturity dates to minimise the risk of interest rate movements. In determining best value Council will consider investment returns, transaction costs and other relevant and objectively quantifiable factors.
Council management may from time to time invest surplus funds in the following low risk investments:

- Deposits with the Local Government Finance Authority (liabilities guaranteed by the State Government Treasurer as per section 24 of the Local Government Finance Authority Act 1983); and/or
- Bank interest bearing deposits

Any other investment requires specific approval of Council. Where Council authorises any investment of a type outside of those specified above, the amount so invested will be 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.

7. Reporting

At least once per year, Council and Council's Audit & Risk Committee 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 change and changes in the quantum since the previous report;
- the proportion of fixed interest rate and variable interest rate borrowings at the end date of the reporting period and an estimate of the average of these proportions across this period, along with key reasons for significant variances compared with the targets specified in this policy
- budgeted end of financial year borrowings versus actual borrowings.

With each budget review and when the Annual Accounts are finalised Council will receive a specific report regarding treasury management performance relative to the criteria specified in this policy document. The report shall highlight;

- the amount of each Council borrowing and investment and its interest rate and maturity date and changes in holdings since the previous report,
- 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 and any key reasons for significant variances compared with the targets specified in this policy; and
- projections of committed and approved principal and interest payments for the next ten financial years

8. Availability/Accessibility

This Policy is available for inspection at Council's offices during normal business hours and Council's website, and will be emailed to interested parties on request (please lodge request in writing via email to council@coorong.sa.gov.au).

9. Document History

This Policy will be reviewed at least every three (3) years or more frequently if legislation or Council requires.

Version	Adopted	Minute No	Description of change(s)
1	15 March 2011	104/11	New policy
2	24 June 2014	131/14	Cyclical review
3	21 March 2017	046/17	Cyclical review
4	26 June 2018	103/18	Cyclical review
5	20 April 2021	074/21	Cyclical review
6	19 May 2026	121/26	Refinement of introductory clause to a policy 'purpose' Policy objectives rewritten Minimum and maximum percentages aligned at clause 5.1 to reflect the parameters of fixed versus variable interest rate borrowings Treasury management strategies updated to align with intent of Council's Equity Reserve Policy Variable interest rate borrowing parameters amended that may represent movement outside of the target range(s) Investment clause refined and Reporting clause inserted respectively