1. INTRODUCTION:

This document sets out the policy of the City of Mount Gambier ("Council") in relation to the treasury management function.

2. PURPOSE:

The purpose of this policy is to:

- Provide clear direction to management, staff and Council in relation to the Treasury Management function.
- Establish a decision framework (as shown below).

3. SCOPE:

This policy is applicable to all employees and all Elected Members.

The Treasury Management Policy establishes a decision-making framework to ensure that:

- Funds are available to support approved outlays;
- Interest rates and other risks (e.g. liquidity and investment credit risks) are acknowledged and responsibly managed; and
- The net interest costs associated with borrowing and investing are reasonably likely to be minimised on average over the longer term.

4. DEFINITIONS:

Key Term – Acronym	Definition
Treasury Management	Is the management of investments and debt, in order to make the best possible use of funds, maintain financial sustainability, maximise the returns from investments, reduce the overall cost of borrowings, and mitigate operational and financial risk.
Asset Renewal Funding Ratio	Capital expenditure on renewal or replacement of existing assets as a percentage of asset management plans allocation. *Capital expenditure on renewal or replacement of existing assets / Asset Management Plan*.
Borrowing	Cash received from another party in exchange for future payment of the principle, which would normally include interest and other finance charges.

Key Term – Acronym	Definition
Convertible Cash Advance Debenture	A loan where principal amounts can be repaid at any time and calculation of interest payable is based on the amounts of principal outstanding i.e. an interest only loan. The principal is not required to be repaid until maturity.
Credit Foncier	A loan for a fixed term with regular repayments comprising principal and interest, such that at the end of the term the total principal would have been repaid.
Direct Benefits	Are expenditure which provides direct benefits to persons or categories of persons in a manner which matches the extent to which the direct benefits accrue to persons or categories of persons.
Financial Sustainability	Where planned long-term service and infrastructure levels and standards are met without unplanned increases in rates or disruptive cuts to services.
General Benefits	Are defined as expenditure which: ➢ provide benefits which are independent of the number of persons who benefit from the expenditure; ➢ or generate benefits which do not accrue to identifiable persons or groups of persons; or generates benefits to the community generally.
Inter-Generational Equity	When assessing investment and borrowing decisions, consideration should be given to the “generation of rate payers” who will derive the substantive benefits versus those who will ultimately pay (through Council rates and user charges).
Net Financial Liabilities Ratio	Net Financial Liabilities (total liabilities less financial assets) as a percentage of total operating revenue. *Net Financial Liabilities/Total operating revenue.*
Operating Surplus Ratio	Operating surplus before capital revenues as a percentage of total operating revenue *Operating surplus / Total operating revenue.*

5. ROLES & RESPONSIBILITIES:

5.1 Council:

Council is responsible for approving the policy and for using their revenue raising powers responsibly by raising sufficient revenue to ensure financial sustainability.

5.2 Chief Executive Officer:

The Chief Executive Officer is responsible to Council for managing the funds of Council to ensure that the objectives of Council are achieved in an effective and efficient manner.

5.3 Manager Finance:

Manager Finance is responsible for promoting a best practice approach in support of effective financial management practices and properly functioning controls.

5.4 Employees:

Employees are responsible for adhering to the policy.

6. POLICY STATEMENTS:

Treasury Management Strategy:

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

- **Community Need** - Identified community needs and benefits relative to other expenditure options;
- **Cost Effectiveness** - Cost effectiveness of the proposed means of service delivery;
- **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.
- **Delivery and Maintenance Of Assets** – Based on asset management plans.
- **Strategic Partnerships** – Where the "multiplier effect" will mean that more can be delivered supported by Council funds and contribution from partners e.g. federal or state government grants or commercial organisation contributions.

6.2 The treasury management policy is a key driver of financial sustainability over the life of the LTFP and as such Council manages its finances holistically in accordance with its overall financial sustainability strategies and targets:

- **Retention of funds** - Will not retain and quarantine money for particular future purposes unless required by legislation or agreement with other parties;
- **LTFP** - Will borrow funds in accordance with the requirements set out in its Long Term Financial Plan;
- **Offset** - Will 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; and

- **Cash flow shortfalls** - Meeting immediate cash flow shortfalls initially by redeeming invested funds. Where there are no (or insufficient) funds invested they may be drawn down against Council's Convertible Cash Advance Debenture (CAD) facilities at the LGFA approved in the short to medium-term in accordance with delegations.

6.3 Key Financial Indicators (KFIs)

- Council ensures long term financial sustainability using key financial indicators in its LTFP. Council has the following targets:
  - **Operating Surplus Ratio** – To achieve a positive operating surplus ratio by FY 2027.
  - **Net Financial Liabilities Ratio** – Achieve a target of less than 100% of total operating revenue by FY 2027; and
  - **Asset Renewal Funding Ratio** - Maintain asset renewal funding ratio of greater than or equal to 100% of the Asset Management Plan.

7. BORROWINGS:

Borrowings are not a form of income and do not replace the need for Council to generate sufficient operating income to service its operating requirements.

Undertaking borrowings gives rise to both an asset (the cash it provides) and a liability (the obligation to repay the money borrowed).

There are many types of borrowings available and Council will consider these when borrowing to minimise net interest costs on average over the longer term and to manage interest rate movement risks.

Council manages its cash holistically within the constraints of its overall financial strategies and key financial indicators aligned with this policy in the medium to long term (as modelled in the LTFP).

7.1 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.

7.2 Fixed and Variable Interest Rate Borrowings:

- **Annual Review** - 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.
- **Maturity Dates** - 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.
- **Debt Structure** - 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.
- **Flexible Borrowings** - 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.

7.3 Finance Leases:

- Where Council enters into a Finance Lease this is in essence a borrowing transaction and should be considered holistically in accordance with Council's overall borrowing policy. An evaluation of lease versus debt will be performed to determine the best return to Council.
- Disclosure of lease costs is to be provided in the annual financial statements in accordance with Australian Accounting Standards.

8. INVESTMENTS:

8.1 **Risk Management** - 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.

8.2 **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.

8.3 **Review** - 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.

8.4 **Investment Type** - 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.

8.5 **Best Value** - 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.

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

9. 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 changes.

10. EDUCATION/TRAINING:

Training is provided to the Executive and Elected Members when communicating the details of the annual budget and LTFP.

11. REVIEW & EVALUATION

This Policy is scheduled for review by Council in November 2024, however, it will be reviewed as required following any legislative changes which may occur, or if deemed necessary by the Manager Finance.

12. 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.

File Reference:	AF18/48
Applicable Legislation:	Local Government Act 1999 Local Government (Financial Management) Regulations 2011
Reference: Strategic Plan – Beyond 2015	Goal 3, Strategic Objective Our Diverse Economy
Related Policies:	B300 Budget Framework Policy
Related Procedures:	Nil
Related Documents:	Financial Sustainability Information Papers: • 01 Financial Sustainability • 08 Long Term Financial Plans • 09 Financial Indicators • 10 Debt • 15 Treasury Management

DOCUMENT DETAILS

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