	# Treasury Management Policy	**Version No:**	2.3
		Issued:	May 2010
		Last Review:	October 2023
		Next Review:	October 2027

Name of Council	Wudinna District Council
File reference	9.63
Responsibility:	Financial Management
Minutes reference:	11.1.5 21 November 2023
Next review date:	Council will endeavour to review this policy every 4 years and within 12 months of a general election.
Applicable Legislation:	Local Government Act 1999 (Sections 44, 47, 122, 134, 139 & 140) Statutes Amendment (Local Government Review) Act 2021
Related Policies:	Financial Management & Internal Control Policy
Related Procedures / Standards:	AASB7 Financial Instruments: Disclosures AASB 132 Financial Instruments: Presentation AASB 139 Financial Instruments: Recognition and Measurement

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1. 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 (updated at least annually) to assist it to determine affordable service levels and revenue raising needs.

2. 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 (e.g. liquidity and investment credit risks) are acknowledged and responsibly managed;
- The net interest costs associated with borrowing and investing are reasonably likely to be minimised on average over the longer term.

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3. POLICY STATEMENTS

3.1 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; and
- 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:

- 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;
- 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.

3.2 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.

3.2.1 Fixed Interest Rate Borrowings

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 30%.

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; and
- allow the full amount of principal to be repaid (or rolled over) at maturity.

Council also will ensure that no more than 20% of its fixed interest rate borrowings mature in any year.

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

Council will establish, and make extensive use of, a Local Government Financing Authority's 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.

3.3 Investments

Council funds that are not immediately required for operational needs and cannot either be applied to either reduce existing borrowings or avoid the raising of new borrowings will be invested. The balance of the 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.

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 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 other relevant and objectively quantifiable factors.

Council management may from time to time invest surplus funds in:
- deposits with the Local Government Financing 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.

3.3.1 Investment Authority

The authority to invest surplus funds is restricted to the Finance Manager in consultation with the Chief Executive Officer.

The transfer of funds from one Council investment to another Council investment and from Council investment funds to Council general funds or vice versus can be undertaken by either the Chief Executive Officer or the Finance Manager.

3.4 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:
- 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
- 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 reason for significant variances compared with the targets specified in this policy.

4. WHEN DOES COUNCIL BORROW?

The management of Council's debt should focus on the net debt situation, that is, borrowings less investments. Council should ensure that they are not borrowing at higher interest rates when they have significant funds invested at lower interest rates. Focusing on principal and interest payments alone is inappropriate (but still important), cash reserves and interest earned also contribute to the financial health of Council. Similarly, a net movement in principal (new debt less principal repayments) is the appropriate focus, as is net interest paid (or earned). It is the impact of net debt transactions that affect Council's ability to provide funds for operations. Note that a deficit in Council's annual budget result adds to (and a budget surplus reduces) net debt.

In general, it is nearly always more cost effective for a Council to meet current expenditure needs by first using any surplus cash and investments currently available (even if these are surplus only for a short term) before undertaking a new borrowing (even if this simply defers the need to raise the borrowing for a short period of time).

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As part of the annual budget process Council will consider existing cash reserves held and the interest savings on using those funds rather than external debt.

5. BUDGET RESULT

Council has to maintain liquidity to be able to pay its liabilities when they fall due. Council's budget result is defined as follows:

Current Assets (CA)
Less: Trade & Other Payables (TP)
Less: Short Term Provisions (SP)
Less: Cash Backed Reserves (C)
Equals the Budget Result
CA-TP-SP-C = Budget Result

6. FINANCIAL INDICATORS

Council is required to report in its Annual Budget, Financial Statements and the Long Term Financial Plan the following main three financial indicators:

Operating Surplus Ratio - By what percentage the operating income varies from the operating expenses.
An operating surplus (or deficit) arises when operating income exceeds (or is less than) operating expenses for a period (usually a year). Council's long-term financial sustainability is dependent upon ensuring that, on average over time, its expenses are less than associated income.

Council's limit is between 0 and 15% over any five (5) year period.

Net Financial Liabilities Ratio **-** What is owed to others less money held, invested or owed to Council.
Calculated as:

Total Liabilities (from Balance Sheet)
Less: Current cash and cash equivalents
Less: Current trade & other receivables
Less: Current other financial assets
Less: Non-current financial assets
Equals: Net financial liabilities
Divided by: (Total operating revenues; Less: NRM levy raised)

Council's limit is greater than zero but less than 100% of total operating revenue.

The target ratio should normally be greater than 0%. If not, that is likely to imply that a Council places a higher priority on accumulating financial assets than applying funds generated from ratepayers to the provision of services including infrastructure renewal.

Asset Sustainability Ratio – The extent to which assets are being renewed/replaced at the rate they are wearing out.

Council's limit is the capital outlays on renewing/replacing assets net of proceeds from the sale of replaced assets is greater than 90% but less than 110% of the level proposed in the Infrastructure and Asset Management Plan.

7. REFERENCES

- Local Government Association Information Paper No. 15 – Treasury Management
- Local Government Association Information Paper No 9 – Financial Indicators

8. 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.wudinna.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.