District Council of Yankalilla

Treasury Management Policy

Strategic Reference	Provide leadership, good governance, and efficient, effective and responsive Council services
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Responsibility	Chief Finance Officer
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Relevant Legislation	Local Government Act 1999
Related Policies	Annual Budget / Business Plan Policy Funding Policy Strategic Rating Policy
Related Procedures / Documents	None

1. Introduction

This policy underpins Council's decision-making in financing of its operations in the annual budget and long-term financial plan and projected cash flow receipts and outlays.

Council will maintain an up-to-date Long-term Financial Plan and is committed to operating in a financially sustainable manner.

The Local Government Act requires Council to approve all borrowings. Council discharges this responsibility by approving borrowings for the year at the time the annual budget is adopted.

1. Legislative Requirements and Corporate Policy Context

1.1. Local Government Act, 1999;

- Section 44
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(1) A council may delegate a power or function vested or conferred under this or another Act.

(3) However, a council may not delegate—
(c) power to borrow money or to obtain other forms of financial accommodation;

- Section 134

  134—Borrowing and related financial arrangements

  (1) A council may borrow money and obtain other forms of financial accommodation.

  (2) A borrowing may take any form considered appropriate by the council, including through the use of an overdraft or finance lease.

  (3) A council may enter into financial arrangements for the purpose of managing, hedging or protecting against movements in interest rates or other costs of borrowing money, including—

  (a) interest rate swaps;

  (b) forward interest rate agreements;

  (c) interest rate options;

  (d) other prescribed arrangements.

  (4) However, a council must not enter into a financial arrangement under subsection (3) unless or until—

    - *(a) the council has obtained and considered independent and impartial advice about the proposed financial arrangements and the appropriate risk-management policies, controls and systems that should be in place from a person whom the council reasonably believes to be competent to give the advice; and*
    - *(b) the council has adopted risk-management policies, controls and systems by a resolution passed by at least a two-thirds majority of the members of the council.*

- Section 139

  139—Investment powers

  (1) A council may invest money under its control.

  (2) A council must, in exercising its power of investment—

  (a) exercise the care, diligence and skill that a prudent person of business would exercise in managing the affairs of other persons; and

  (b) avoid investments that are speculative or hazardous in nature.

  (3) Without limiting the matters that a council may take into account when exercising its power of investment, a council must, so far as may be appropriate in the circumstances, have regard to—

  (a) the purposes of the investment;

  (b) the desirability of diversifying council investments;

  (c) the nature of and risk associated with existing council investments;

  (d) the desirability of maintaining the real value of the capital and income of the investment;

  (e) the risk of capital or income loss or depreciation;

  (f) the potential for capital appreciation;

  (g) the likely income return and the timing of income return;

  (h) the length of the term of a proposed investment;

  (i) the period for which the investment is likely to be required;

  (j) the liquidity and marketability of a proposed investment during, and on the determination of, the term of the investment;

  (k) the aggregate value of the assets of the council;

  (l) the likelihood of inflation affecting the value of a proposed investment;

  (m) the costs of making a proposed investment;

  (n) the results of any review of existing council investments.

  (4) Without limiting the matters that a council may take into account when exercising its power of investment, but subject to the operation of subsection (3), a council may, so far as may be appropriate in the circumstances, have regard to—

  (a) the anticipated community benefit from an investment;

> *(b) the desirability of attracting additional resources into its local community.*
>
> *(5) A council may obtain and consider independent and impartial advice about the investment of funds or the management of its investments from a person whom the council reasonably believes to be competent to give the advice.*

- Section 140
  - ***140—Review of investments***
  - *A council must, at least once in each year, review the performance (individually and as a whole) of its investments.*

Definition

1.2. For the purpose of this policy:

"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. Commercial credit foncier borrowings (including to local governments) usually have a fixed rate of interest. Mortgages taken out by householders with a variable interest rate and requiring repayments that include both principal and interest such that the principal is repaid over a specific period sometimes are also described as credit foncier borrowings

"Financial Sustainability"*:* A 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 a 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 a Council could be met by its operating revenue.

2. Policy

2.1. Objectives

2.2. This Treasury Management Policy provides clear direction to management, staff and Council in relation to the treasury function and establishes a decision framework to ensure that

- funds are available as required to support approved outlays;
- interest rate and other risks (e.g. liquidity risks and investment credit risks) are acknowledged and responsibly managed;
- subject to Council's capital expenditure decisions, the gross level of debt is minimised; and
- over the longer term it is reasonably likely to optimize the net interest costs associated with borrowing and investing.

2.3. Treasury Management Strategy

2.4. 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 (including consideration of the cost of capital and the impact of the proposal on Council's Net Financial Liabilities and Interest Cover ratios).

2.5. Whether a borrowing needs to be raised and if so the nature of it is a separate decision to the expenditure one and it is made in accordance with the criteria specified in this policy.

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

- will borrow funds in accordance with the requirements set out in its Long Term Financial Plan;
- will only borrows funds when it needs cash and not specifically for particular projects;
- recognizes that on average the rate of return it can receive from investing money is less than the interest rate charged on borrowed funds;
- will not retain and quarantine money for particular future purposes unless required by legislation or agreement with other parties;
- applies any funds it has 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.

3. Interest Rate Risk Exposures

3.1. <u>Fixed interest rate versus variable interest rate borrowings</u>

Council recognises that future movements in interest rates are uncertain in direction, timing and magnitude. It considers it is appropriate to utilise both fixed and variable interest rate borrowings to achieve its objective of minimising net interest costs on average over the longer term and at the same time managing interest rate movement risks within acceptable limits.

When Council considers any additional loans, it should take into account the current portfolio of loans, in particular the balance between fixed rate and variable rate loans and their maturity profile, before deciding on the nature of the loans to be used.

3.2. Fixed interest rate borrowings

Having regard to cost effectiveness, risk management criteria and flexibility, Council will restructure its portfolio of borrowings as old borrowings mature and new ones are raised.

In order to spread its exposure to interest rate movements, Council will aim to have a variety of maturity dates on its fixed interest borrowings over the available maturity spectrum and will typically have no more than one fixed interest rate borrowing maturing in any financial year

In circumstance 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 will also ensure that no more than 25% of its fixed interest borrowings mature in any one year where possible.

Fixed rate loans can be either interest only or credit foncier.

Interest only loans are suitable if Council wishes to borrow a set amount of funds for a known period, and make interest payments during the term of the loan, with the principal amount repaid at maturity.

Credit foncier loans are suitable if Council wishes to borrow for a known period of time, and make repayments of principal and interest during the term of the loan. Credit foncier borrowings by councils are typically at fixed interest rates. However, the Council can choose how frequently it wishes to make repayments, and the loan can be negotiated as a fixed rate for the term of the loan or as a floating rate which varies according to prevailing market rates.

As a general rule, council will arrange its fixed rate loans as credit foncier loans, as a consolidated portfolio of Credit foncier loans will enable Council to prudently manage principal repayments on its loan portfolio.

3.3. Variable interest rate borrowings

Council recognises that there is usually a significant 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. This is more readily and effectively achievable with variable interest rate borrowings.

Council will make extensive use of a variable interest rate borrowing facility and or LGFA’s Cash Advance Debenture facility that requires interest payments only but enables any amount of principal to be repaid or redrawn at call. The redraw facility will provide the Council with access to liquidity and therefore eliminate the need to hold significant sums in liquid investments.

These borrowing facilities will have:

- a long-term maturity date;
- an interest rate will vary from time to time (e.g. when there is a movement in official short-term interest rates) and the amount of principal outstanding at any time would not be repayable until maturity (The LGFA Cash Advance Debenture is an example of such a product.); and
- The outstanding level of drawdowns on the facility may vary significantly during a year and between years with the timing and extent of cash inflows and outflows.

This flexibility requires adequate internal controls and delegations to be endorsed by Council.

4. Investments

As there is usually a significant margin between borrowing and investment rates, Council will seek to avoid holding investments, particularly considerable investments over extended periods of time.

Any 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. The balance of funds held in any operating bank account that doesn't generate investment returns consistent with at call market returns, shall be kept at a level that is no greater than is required to meet immediate working capital requirements.

Any funds invested 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. The maturity date for a fixed term investment would not exceed a point in time where the funds otherwise could have been 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 within the above criteria the investment which delivers the best value to Council is to be selected 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

4.1. Any other investment requires specific approval of Council. If Council authorises any investment 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 investment.

4.2. With each new Annual Business Plan & Budget 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.

5. Further Information

This policy will be available for inspection at the Council office listed below during ordinary business hours and provided to interested parties as per Council's Fees and Charges Register. Copies are available to be downloaded, free of charge, from Council's internet site: www.yankalilla.sa.gov.au

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6. Grievances

Any grievances in relation to this policy or its application should be forwarded in writing addressed to the Chief Executive Officer of Council.

7. Review Cycle

This document is subject to review in two (2) years from the date of authorisation.

8. Document History

Date	Version	Council Resolution No.	Description of changes
February 2014	**2.1**	C	Adoption of Policy
July 2020		C20127	Review and Amendment of Policy
November 2021	**2.2**	C21247	Minor wording amendments