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 Executive Officer
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Relevant Legislation	Local Government Act 1999 (s139 (2)(b)) Local Government (Financial Management) Regulations 2011
Related Policies	Annual Business Plan and Budgeting Policy Internal Financial Control Policy Rating Policy
Related Procedures / Documents	Annual Budget Long-Term Financial Plan

1. Introduction

This policy provides clear direction to the District Council of Yankalilla (Council) and its staff in relation to the treasury function. It 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.

The Council is committed to operating in a financially sustainable manner and maintains an up-to-date Long-term Financial Plan to assist in determining affordable service levels and revenue raising needs.

2. Definition

2.1. For the purpose of this policy the following definitions apply:

Better Practice Model – the framework of internal financial controls legislated for South Australian Local Government external audits.

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.

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.

LGFA – Local Government Finance Authority

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.

3. Policy Objectives

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

- 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 minimise the net interest costs associated with borrowing and investing.

4. Policy Statement

4.1. Treasury Management Strategy

4.1.1. 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 and Interest Cover ratios).

4.1.2. 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.

4.1.3. The 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, Annual Business Plan and Annual Budget;
- maintain sufficient funds to meet its liabilities;
- report on the performance and outcomes of the Councils investments and borrowings to the Audit and Risk Committee and to the Council at least annually.
- recognise that on average the rate of return it can receive from investing money is less than the interest rate charged on borrowed funds;
- maintain target ranges for its Net Financial Liabilities ratio;
- will not retain and quarantine money for particular future purposes unless required by legislation or agreement with other parties; and
- wherever possible apply 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.

4.2. Investments

4.2.1. Investments will be held in the name of the Council.

4.2.2. 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.

4.2.3. 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.

4.2.4. Where the Council has funds available for investment, funds may be invested in 'at call' or 'fixed term' dependent upon cash flow requirements and interest rates.

4.2.5. 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.

4.2.6. When investing funds within the above criteria the investment type that delivers the best value to Council is to be selected having regard to investment returns, transaction costs and other relevant and objectively quantifiable factors.

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

- Deposits with the Local Government Finance Authority; and/or
- Bank interest bearing deposits

4.2.8. Any other investment requires specific approval of Council. Council must be mindful of the requirements of the *Local Government Act 1999,* in particular s139 (2)(b) which provides that Council must avoid investments that are speculative or hazardous in nature.

4.3. Conflict of Interest

4.3.1. Where investment occurs outside of cash investment, conflicts of interest for staff and Council Members are to be disclosed as part of investment decisions.

4.4. Interest Rate Risk Exposures

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 borrowings, 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.

The portfolio of borrowings includes all current loans and the LGFA Cash Advance Debenture Facility line of credit to the maximum value.

4.4.1. 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.

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

Interest only loans are only permissible where 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.

4.4.2. Variable Interest Rate Borrowings

Council recognises that there is usually a significant margin between borrowing and investment rates. When this occurs Council can generate savings by structuring its portfolio of borrowings so that surplus cash can be used to reduce the level of borrowings, thereby minimising interest expense. 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. Such facilities require interest payments only and enable any amount of principal to be repaid or redrawn at call. The redraw facility will provide Council with access to liquidity and therefore eliminate the need to hold significant sums in liquid investments. It is important to note that these are approved borrowing facilities and not an overdraft.

These borrowing facilities will have all of the following features:

- a long-term maturity date
- an interest rate that will vary from time to time (e.g. when there is a movement in official short-term interest rates)
- 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)

This flexibility requires additional internal financial controls.

4.4.3. Third Party Loans

When undertaking a loan that is to be charged to a third party under agreement (including community group loans), the Council may structure the loan term and whether the interest is fixed or variable according to the requirements of this agreement, in line with Council Policy.

5. Reporting

5.1. Section 140 of the *Local Government Act 1999* requires Council to review the performance of its investments on an annual basis.

5.2. A quarterly report on treasury management performance is presented to the Audit & Risk Committee.

5.3. A monthly report including information on Council's current loan balances is presented to Council.

6. Internal Financial Controls

6.1. This policy and associated procedures assist in addressing the following financial risk areas as referenced in the 'Better Practice Model':

- the Council makes poor investment decisions;
- investment transactions are either not recorded or are recorded inaccurately;
- investment income is inaccurately calculated or not recorded in the appropriate period;
- conflict of interest impacts negatively upon investment decision;
- borrowings are either not recorded or are recorded inaccurately;
- loans are taken out without appropriate approval;
- loans are not repaid in accordance with the agreed terms;
- loan repayments are not recorded at all or are recorded inaccurately; and
- lack of working capital to meet Council's financial commitments.

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7. Availability

This Policy is available for inspection at the Council office 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 website: www.yankalilla.sa.gov.au

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8. Grievances

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

9. Review

This Policy will be reviewed every four (4) years or more frequently if legislation or Council requires.

10. Document History

Date	Version	Council Resolution No.	Description of changes
February 2014	2.1	NA	Adoption of Policy
July 2020		C20127	Review and Amendment of Policy
November 2021	2.2	C21247	Minor wording amendments
February 2024	3.0	C24050	Updated with formatting changes, language revisions, and the addition of references to internal financial controls aligned with the Better Practice Model. Third Party Loans and Conflict of Interest have also been incorporated.