city of Victor Harbor

# POLICY

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| **Policy Name** | Treasury Management Policy |
| **Policy Category** | Governance |
| **Department / Officer** | Office of Chief Executive Officer / Group Manager Governance and Finance |
| **Date Adopted** | 26 March 2012 |
| **Date/s Reviewed** | 22 September 2014, 22 August 2016, 27 August 2018; 22 November 2021 |
| **Review Frequency** | Every Three Years |
| **Strategic Plan Reference** | Aspiration 6 – We are a financially sustainable and well-governed organisation |
| **Attachments** | Nil |

## 1. Purpose

The purpose of this policy is to provide a clear direction to management, staff and Council in relation to the treasury function and it underpins Council's decision-making regarding the financing of its operations as documented in its Annual Business Plan and budget and Long-Term Financial Plan and associated projected and actual cash flow receipts and outlays.

It ensures that Council maximises the return on surplus funds and minimises financial costs by:

- assessing levels of risk;
- utilising surplus funds to reduce or defer borrowings that would otherwise be necessary;
- investing and borrowing in accordance with its legislative and common law responsibilities.

## 2. Scope

The Policy applies to all council investment decisions 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 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.

## 3. Policy Statement (Summary)

The City of Victor Harbor is committed to operating in a financially sustainable manner and maintains a Long-Term Financial Plan to assist to determine affordable service levels and revenue raising needs.

## 4. Legislation and Compliance

***Borrowings***
Pursuant to *Section 122 of the Act*, Council must have a Long-Term Financial Plan as part of its suit of strategic management plans[1]. These documents must include:

- The sustainability of a Council's financial performance and position;
- The maintenance, replacement or development needs for infrastructure within this area;
- Proposals with respect to debt levels; and
- The identification of any anticipated or predicted changes that will have a significant effect upon the cost of the Council's activities/operations.

*Section 134 of the Act* requires Council to consider independent expert advice before entering into particularly complex and sophisticated types of borrowing arrangements.[2]

***Investments***
*Section 47 of the Act*, Council is prohibited from directly acquiring shares in a company.

*Section 139 of the Act* empowers Council to invest and requires that the power of investment be exercised with the care, diligence and skill that a prudent person of business would exercise in managing the affairs of other persons and to avoid investments that are speculative or hazardous in nature.

*Section 140 of the Act* requires Council to review the performance of its investments at least annually.

## 5. Definitions

***Financial Sustainability*** means occurs when expenditure, revenue raising and service level decisions are made such that planned long term service and infrastructure levels and standards can be achieved without unplanned increases in rates or disruptive cuts to services.

***Financial Indicators*** means financial measures or ratios that are used in management plans, annual reports and other internal and external reports to guide or assess the financial performance and position of a Council.

[1] See Local Government Association Financial Sustainability Information Paper 8: Long-term Financial Plans at www.lga.sa.gov.au/FSP

[2] (a) interest rate swaps
(b) forward interest rate agreements
(c) interest rate options

***Long Term Financial Plan*** means the primary financial document linked to the Community Plan 2030, and informed by the Asset Management Plan expressing activities over at least 10 years providing guidance to formulate a financially sustainable business plan and budget.

***LGFA*** means Local Government Finance Authority being an authority established under the *Local Government Finance Authority Act 1983*.

***Operating Surplus Ratio*** is calculated by expressing the operating surplus/deficit shown in the Statement of Comprehensive Income as a percentage of general and other rate revenue (net of rebates and excluding revenue from the Natural Resource management Levy). A negative ratio indicates the percentage increase in total rates that would be required to achieve an operating break-even result (i.e. revenue equal to operating expenses).

***Net Financial Liabilities Ratio*** means Net Financial Liabilities as a percentage of Operating Revenue.

***Asset Renewal Funding Ratio*** means the ratio of a Council's capital expenditure on renewal or replacement of assets (net proceeds from sale of replaced assets) relative to the expenditure proposed in Council's Asset Management Plans.

***Treasury Management*** means managing borrowings investments and cash flows.

## 6. Policy Content

### 6.1. 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 ongoing impact of the proposal on Council's Net Financial Liability Ratio[3]).

Council manages its finances holistically in accordance with its overall financial sustainability strategies and targets, whereby Council will:

- maintain and regularly review target ranges for its Operating Surplus, Net Financial Liabilities and Asset Sustainability ratios;
- not retain and quarantine money for particular future purposes unless required by legislation, agreement with other parties or for identification of public or grant funds;
- 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

[3] The Local Government Associations' Financial Sustainability Information Paper No 9 *Financial Indicators* at www.lga.gov.au/FSP provides further information on this (and other) financial sustainability indicators and associated targets.

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.

### 6.2. 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.

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.

#### 6.2.1 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% of its gross debt in the form of fixed interest rate borrowings.

In circumstances where Council needs to raise new fixed interest rate borrowings it may consider using medium to long-term borrowings (5 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 will also seek to ensure that no more than 25% of its fixed interest rate borrowings mature in any year.

#### 6.2.2 Variable Interest Rate Borrowings

Council may choose to maintain appropriate levels of gross debt in the form of variable interest rate borrowings.

Council may make use of the Local Government Finance Authority'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 immediate access to liquidity when needed.

### 6.3. Investments

Council 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 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 in time where the funds otherwise could be applied to cost-effectively defer the need to raise a new borrowing or to 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 Finance 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.

### 6.4. 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, 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 reasons for significant variances compared with the targets specified in this policy.

## 7. Risk Management

The management of cash and investments is a high-risk activity and Council must ensure that sound strategies are in place to minimise exposure to unfavourable interest rates and restrictions on their availability. Similarly, Council should ensure that borrowings are managed to minimise exposure to unfavourable interest rates and repayment terms. The utilisation of the Local Government Finance Authority provides guaranteed facilities for both investment and borrowing activities.

## 8. Implementation/Delegations

The Chief Executive Officer is delegated authority to implement this Policy.

Council cannot delegate the power to borrow money or to obtain other forms of financial accommodation, therefore all proposed borrowings are approved via the budget in order to comply with *Section 44 of the Local Government Act 1999*.

## 9. Related Documents

Long Term Financial Plan
Asset Management Plans
Community Plan 2030
Delegations Register
Local Government Association – Financial Sustainability – Information Paper 15

## 10. Availability of Policy

This policy is available on Council's website at www.victor.sa.gov.au. It may also be inspected or purchased at the Principal Office of the Council at 1 Bay Road, Victor Harbor.