POLICY 5.24
Finance and Internal Controls
Treasury Management
Version: 4 | Next Review: March 2028

DISTRICT COUNCIL of TUMBY BAY

1. INTRODUCTION

This Treasury Management Policy provides clear direction to management, Council staff, and Council in relation to the treasury function. It underpins decision making regarding the financing of Council operations as documented in Council's annual budget and long term financial plan, along with 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 to assist in determining affordable service levels and revenue raising needs. The Long Term Financial Plan also provides projections of future cash flow availability and needs.

2. POLICY OBJECTIVE

This Treasury Management Policy (the Policy) establishes a decision framework to ensure that:

2.1 funds are available as required to support approved outlays,

2.3 interest rates and other risks (e.g. liquidity and investment credit risks) are acknowledged and responsibly managed,

2.4 the net interest costs associated with borrowing and investing are reasonably likely to be minimised on average over the longer term.

3. LEGISLATIVE REQUIREMENTS

3.1 Borrowings

As set out in the *Local Government Act 1999*:

a) Section 44 provides that Council may not delegate power to borrow money or to obtain other forms of financial accommodation.

b) Section 122 provides that Council's strategic management plans must include an assessment of a Council's proposals with respect to debt levels.

c) Section 133 provides that a Council may obtain funds from a range of sources, including taxation and borrowing, appropriate to the Council carrying out its functions.

d) Section 134 provides that a Council may borrow money and obtain other forms of financial accommodation and may take any form considered appropriate by Council

e) Section 134 also provides that a Council may enter into financial arrangements for the purpose of managing, hedging or protecting against interest rate movements and other risks associated with borrowing money (and gives examples) but must obtain and consider independent and impartial advice before entering into a financial arrangement for this purpose.

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3.2 Investments

As set out in the *Local Government Act 1999*:

a) Section 47 prohibits Council from directly acquiring shares in a company.

(1) Section 139 provides that 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 prudent person of business would exercise in managing the affairs of other persons; and (b) avoid investments that are speculative or hazardous in nature.

b) Section 140 provides that a Council must review the performance of Council's investments, individually and as a whole, at least annually.

4. TREASURY MANAGEMENT STRATEGY

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

a) identified community need and benefit relative to other expenditure options,

b) cost effectiveness of the proposed means of service delivery, and

c) 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).

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

a) maintain target ranges for its Net Financial Liabilities Ratio,

b) not retain and quarantine money for particular future purposes unless required by legislation, agreement with other parties, or resolved by Council (e.g. CWMS),

c) borrow funds in accordance with the requirements set out in its Long Term Financial Plan,

d) 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.

5. DECISION MAKING

This Policy assists Council's decision making regarding the funding of Council's operations in terms of cash flow, budgeting, borrowings and other investments.

The Policy links closely to Council's suite of strategic management plans within the context of:

5.1 strategic planning covering short, medium and long term expenditure,

5.2 current and estimated future revenues,

5.4 current and future funding needs, for both operating and capital expenditure, and

5.5 potential movements in interest rates, and other variables that are linked to revenues and/or expenditures.

6. 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.

6.1 Fixed Interest Rate Borrowings

To ensure an adequate mix of interest rate exposures, Council will structure its portfolio of borrowings to maintain on average in any year, not less than 30% of its gross debt in the form of fixed interest rate borrowings.

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 debt it will use the opportunity as necessary to increase its holdings of medium to long-term borrowings (3 years or more duration) that:

a) have a fixed interest rate,

b) require interest payments only, and

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

Council will also aim to have no more than 30% of its fixed interest rate borrowings maturing in any year.

6.2 Variable Interest Rate Borrowings

Council will structure its portfolio of borrowings, as old borrowings mature and new ones are raised, to progressively achieve, and then maintain, not less than 30% of its gross debt on average in any year in the form of variable interest rate borrowings.

Council will establish and make use of the LGFA's Cash Advance Debenture facility. This facility requires interest payments only and enables any amount of principal to be repaid or redrawn at call without any associated service/transaction fees. The redraw facility will provide Council with access to liquidity when needed.

When borrowing conditions fall outside established ranges, any new borrowings will be presented to the Audit & Risk Committee for review.

7. 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 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 and risk, transaction costs and other relevant and objectively quantifiable factors.

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

- deposits with the LGFA, and/or
- bank interest bearing deposits.

Any other type of investment requires the specific approval of Council.

8. RESERVES

Council may establish cash backed reserve accounts as required by legislation or as a useful means of recognising and planning for future proposals with regard to self funding business activities or other specific activities of Council such as asset renewals.

Council will not maintain separate accounts for any cash backed reserves (unless required by legislation) and will apply any cash reserve funds to reduce borrowings or avoid raising new borrowings.

9. REPORTING

At least once a year, Council and the Audit & Risk Committee shall receive a report on treasury management performance relative to this Policy. The report will include:

12.1 for each Council borrowing and investment account, the quantum of funds, its interest rate and maturity date, and changes in the quantum since the previous report, and

12.2 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, and

12.3 budgeted borrowings versus actual borrowings.

10. POLICY REVIEW

This Policy will be reviewed every two (2) years. Council has the right to review this policy at any time, if considered desirable.

11. AVAILABILITY OF THIS POLICY

This Policy will be available for inspection at the Council's Office during ordinary business hours and via the Council's website, www.tumbybay.sa.gov.au. Copies will also be provided to the public upon request and upon payment of a fee in accordance with the Council's Schedule of Fees and Charges.

12. FURTHER INFORMATION

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Applicable Legislation	*Local Government Act 1999* *Local Government (General) Regulations 2013* *Local Government (Financial Management) Regulations 2011*
Related Policies	Policy 5.23 – Cash Management & Investments Policy 5.25 – Revenue & Financing
Related Procedures / Documents	LGASA - Financial Sustainability Information Paper No. 15 – Treasury Management issued November 2024

AUTHORITY:	Adopted by Council:	8/10/2013	{Motion 11c/102013}
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SIGNED: ……..

Responsible Officer