TITLE: TREASURY MANAGEMENT POLICY

1. PURPOSE

The purpose of this policy is to:

- Provide clear direction to management, staff and Council in relation to the treasury management function.
- Establish a decision framework (as shown below).

This policy underpins Council's funding policy and decision-making process 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. As such this policy should be read in conjunction with the Funding Policy.

Council is committed to adopting and maintaining a Long Term Financial Plan (LTFP) and operating in a financially sustainable manner.

2. SCOPE

This policy applies to the Treasury decisions of Council and those parties that are making such decisions.

3. POLICY PRINCIPLES – OUR COMMITMENT

This Treasury Management Policy establishes a decision-making 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; and
- the net interest costs associated with borrowing and investing are reasonably likely to be minimised on average over the longer term.

4. DEFINITIONS

- **Treasury Management** - Is the management of investments and debt, in order to make the best possible use of funds, maintain financial sustainability, maximise the returns from investments, reduce the overall cost of borrowings, and mitigate operational and financial risk.
- **Asset Renewal Funding Ratio** Capital expenditure on renewal or replacement of existing assets as a percentage of asset management plans allocation.

  Capital expenditure on renewal or replacement of existing assets / Asset Management Plan.
- **Borrowing –** Cash received from another party in exchange for future payment of the principal, which would normally include interest and other finance charges.
- **Cash Advanced Debenture –** A loan where principle amounts can be repaid at any time and calculation of interest payable is based on the amounts of principle outstanding i.e. an interest only loan. The principal is not repaid until maturity.
- **Credit Foncier –** A loan for a fixed term with regular repayments comprising principal and interest, such that at the end of the term the total principal would have been repaid.
- **Direct Benefits** – Are expenditure which provides direct benefits to persons or categories of persons in a manner which matches the extent to which the direct benefits accrue to persons or categories of persons.
- **Financial Sustainability –** Where planned long-term service and infrastructure levels and standards are met without unplanned increases in rates or disruptive cuts to services.
- **Funding Policy** - This policy sets out a rationale for funding Council's wide range of functions now and in the future. The Funding Policy ensures that there is a consistent, rational and fair basis for funding Council activities.
- **General Benefits** - Are defined as expenditure which:
  - ➢ provide benefits which are independent of the number of persons who benefit from the expenditure; or
  - ➢ generate benefits which do not accrue to identifiable persons or groups of persons; or
  - ➢ generates benefits to the community generally.
- **Inter-Generational Equity** – When assessing investment and borrowing decisions, consideration should be given to the "generation of rate payers" who will derive the substantive benefits versus those who will ultimately pay (through Council rates and user charges).

- **Net Financial Liabilities Ratio** – Net Financial Liabilities (total liabilities less financial assets) as a percentage of total operating revenue.

  Net Financial Liabilities/Total operating revenue.

- **Operating Surplus Ratio** – Operating surplus before capital revenues as a percentage of total operating revenue

  Operating surplus / Total operating revenue.

5. ROLES & RESPONSIBILITIES

Council:

- Council is responsible for approving the policy and for using their revenue raising powers responsibly by raising sufficient revenue to ensure financial sustainability.

Chief Executive Officer:

- The Chief Executive Officer is responsible to Council for managing the funds of Council to ensure that the objectives of Council are achieved in an effective and efficient manner.

General Managers, Deputy Chief Executive Officer:

- The General Manager Corporate Services is responsible for promoting a best practice approach in support of effective financial management practices and properly functioning controls.

Employees:

- Employees are responsible for adhering to the policy.

6. POLICY STATEMENT

6.1. Treasury Management Strategy

6.1.1. **Treasury Management** - Is the planning, organising, controlling and holding of funds and management of debt, in order to make the best possible use of the funds, maintain financial sustainability, reduce the overall cost of funds, and mitigate operational and financial risk

6.1.2. Council’s operating and capital expenditure decisions are made annually as part of the Annual Business Plan and Budget on the basis of:

- **Community Need** - Identified community need and benefit relative to other expenditure options;
- **Cost effectiveness** - Of the proposed means of service delivery;
- **Affordability** - Of proposals having regard to Council’s long-term financial sustainability.

- **Delivery and Maintenance of Assets**-– Based on the Strategic Asset Management Plan;
- **Anticipated Revenue** – Future funding streams such as developer contributions secured by a separate rate;
- **Strategic Partnerships** – Where the “multiplier effect” will mean that more can be delivered supported by Council funds and contributions from partners e.g. federal/state government grants or commercial organisation contributions.
- **Financial Sustainability Levy** – If required an additional increase in general rates may be included for the funding and debt servicing of major projects.

6.1.3. The Treasury Management Policy is a key driver of financial sustainability over the life of the LTFP and as such Council manages its finances holistically in accordance with its overall financial sustainability strategies and targets:

- will not retain and quarantine money for particular future purposes unless required by legislation or agreement with other parties;
- will 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; and
- meeting immediate cash flow shortfalls initially by redeeming invested funds. Where there are no (or insufficient) funds invested they may be drawn down against Council’s Convertible Cash Advance Debenture (CAD) facilities at the LGFA approved in the short to medium-term in accordance with delegations.

6.2. Key Financial Indicators (KFIs)

Council does ensure long term financial sustainability using key financial indicators in its LTFP preparing a separate LTFP for the Wastewater Service and for Consolidated Council. In accordance with information paper 9 – Local Government Financial Indicators Council has the following targets:

Indicator	Council (Excluding WW)	Wastewater (WW)	Consolidated
Operating Surplus Ratio	3% to 7%	0% to 7%	2.5% to 7%
Net Financial Liabilities Ratio	≤120%	≤500%	≤180%
Asset Renewal Funding Ratio	100%	100%	100%

Other Revenue Streams - Key Financial Indicators targets should be achieved on average in the medium to long term, consideration of revenue streams not included in the KFI calculations e.g. developer contributions, and committed grant and partner revenue should also be made particularly if the KFI is not achieved in the short to medium term.

Wastewater – Specific Wastewater service Key Financial Indicators have been included to acknowledge its increasing significance, impact on Council's overall financial position and performance and expectation that it will be financially sustainable in its own right.

Council (EX WW) – Specific Key Financial Indicators for Council operations (EX WW) have been included to reflect Council's financial sustainability without the impacts of the Wastewater Service – that is expected to be self-funding.

Consolidated – In acknowledgement that Council does own and operate the Wastewater Service, consolidated specific Key Finance Indicators have been included.

7. BORROWINGS:

Borrowings are not a form of income and do not replace the need for Council to generate sufficient operating income to service its operating requirements.

Undertaking borrowings gives rise to both an asset (the cash it provides) and a liability (the obligation to repay the money borrowed).

There are many types of borrowings available and Council does consider these when borrowing to minimise net interest costs on average over the longer term and to manage interest rate movement risks.

Council does manage its cash holistically within the constraints of its overall financial strategies and key financial indicators aligned with this policy in the medium to long term (as modelled in the LTFP). Council does not match borrowings with specific projects but rather will only borrow when it requires cash as a result of timing differences between cash inflows and outflows.

7.1. Fixed Interest Rate Versus Variable Interest Rate Borrowings

Council recognises that future movements in interest rates are uncertain in direction, timing and magnitude. It considers the overall mix of both fixed and variable interest rate borrowings, so that it is able to achieve its policy 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.

7.2. Fixed Interest Rate Borrowings

Having regard to cost effectiveness, risk management criteria and flexibility, Council will restructure~~d~~ its portfolio of borrowings as old borrowings mature and new ones are raised to progressively achieve and thereafter strive to maintain a mixture of fixed and variable loans.

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.

7.3. Variable Interest Rate Borrowings

Council recognises that there is usually a significant margin between borrowing and investment rates and that significant savings can be generated by restructuring 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. For this reason Council will restructure its portfolio of borrowings, as old borrowings mature and new ones are raised, to progressively achieve and then maintain a significant percentage of its gross debt on average in any year in the form of variable interest rate borrowings.

Council makes extensive use of variable interest rate cash advance debenture facilities.

These require interest payments only and enable any amount of principal to be repaid or redrawn at call. These borrowing facilities have a long-term maturity date, the 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 outstanding level of draw-downs on the facility may vary significantly during a year and between years with the timing and extent of cash inflows and outflows.

7.4. Leases

All borrowings including leases must be reviewed and approved by the Finance Department to ensure their compliance with Council's borrowing strategy.

8. OTHER SOURCES OF FUNDS

8.1. As highlighted in the Treasury Management Strategy section above there are other sources of funding that reduce the reliance on rates or borrowings as a source of funds.

8.2. **Developer Contributions** - Developers are responsible for providing gifted assets in the form of roads and footpaths etc. In addition to this they must contribute to Transport, Wastewater and Recreation infrastructure outside of their developments.

8.3. **Strategic Partnerships** - By entering into strategic partnerships with public or private sector partners, Council is able to leverage additional revenue in the form of grants in the case of Federal or State Government, or contributions for commercial partnerships.

8.4. **Levy For Financial Sustainability** - If required an additional increase in general rates may be included for the funding and debt servicing of major projects. This is effectively to fund major infrastructure, and a mechanism used to ensure that Council operates within key financial indicator targets in the short to medium term, whilst it supports the funding of Strategic New Capital Projects (SNCP) to provide intergenerational benefits to the community.

9. INVESTMENTS

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 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.

Any investment of funds except in the following requires specific approval of Council:

- Deposits with the Local Government Finance Authority; and
- Bank interest bearing deposits at Council's nominated banking partner (as tendered and procured).

10. COMMUNITY LOANS

Community loans represent an investment with a long term community benefit where the agreement will clearly articulate:

- Purpose of funding (in accordance with the community stated objectives); and
- The terms of the loan i.e. length, security, interest rate and value.

11. FUNDING:

11.1. General Benefits - Council operations that deliver general benefits to the community are mainly funded by general rates raised in accordance with Chapter 10 of the Local Government Act 1999.

11.2. Direct Benefits - When direct benefits are delivered, if not wholly, funded by user charges for development processes (to the extent permitted by law), refuse disposal, wastewater and water charges and certain services delivered directly to individuals or groups. Direct benefits will be partially funded from general rate revenue for those services the Council makes available to the whole community, regardless of ability to pay, or where the Council seeks to assist or encourage organisations or individuals, or where the Council is seeking to influence developments and trends in the District.

11.3. Capital Expenditure – Will be funded from the following sources:

- Operating surplus minus any carried forward operating deficit;
- Capital grants and contributions received from external parties;
- Borrowings as per Council's Treasury Management Policy;
- Sale of surplus assets
- Partnerships and joint development with third parties; and
- The provision of depreciation for capital renewal and replacement.

11.4. **Annual Budget** - The annual budget is prepared in consultation with the Council according to fund the following expenditure and is reviewed in accordance with the Local Government (Financial Management) Regulations 2011:

- Operating expenditure and revenues.
- New operating initiatives.
- Capital renewal and replacement expenditures.
- New capital expenditure.

12. RESERVES:

12.1. **Reserves** - Are an allocation of Council's accumulated surplus. Council may establish various equity accounts called 'Reserves' to identify accumulated surpluses that will be used for specific future purposes. Separate bank accounts will not be established for reserves unless legally required to do so.

12.2. **Holistic Approach** - Council does manage its finances holistically and in a strategically optimum way rather than practicing "shoebox accounting" whereby monies are earmarked for particular needs and therefore are not available for others. All unrestricted revenues and investments will be applied to meet planned expenditure outlays and extinguish borrowings where possible.

12.3. There are three types of reserves:

- Required by Accounting Standards (e.g. Asset Revaluation Reserve);
- Statutory reserves (e.g. Open Space contributions and Wastewater Maintenance Reserve); and
- Council discretionary reserves (e.g. Indirect developer contributions).

12.4. **Quarantined Funds** - Council can use funds traditionally quarantined, by way of example, for Wastewater Maintenance Charge Reserve, Open Space Reserves and other typically cash backed balance sheet liability or equity accounts as part of their overall financing strategies.

12.5. **Financing** - Where cash is required for specific purposes, but is not required to be kept in separate bank accounts, Council does use this cash to increase its investments, reduce its borrowings or to defer raising additional borrowings.

13. REPORTING

At least once a year Council shall 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~~;~~ and~~;~~

- 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.

14. TRAINING / EDUCATION

Training is provided to CGG and Council Members when communicating the details of the Long Term Financial Plan and annual budget.

15. REVIEW

This Policy will be reviewed:

- every three years; or
- the frequency dictated in legislation, or
- earlier in the event of changes to legislation or related Policies and Procedures; or
- if deemed necessary by the General Manager Corporate Services.

16. ACCESS TO THE POLICY

The Policy is available for public inspection at the Customer Service Centre, at the Local Government Centre, 6 Dutton Road, Mount Barker, South Australia and on the Council's website www.mountbarker.sa.gov.au

17. FURTHER INFORMATION

For further information on this Policy, please contact:

Title:	Manager Financial Services
Address:	PO Box 54, Mount Barker South Australia, SA, 5251
Telephone:	8391 7256
Email:	council@mountbarker.sa.gov.au

<table>
<tr><td>REFERENCE NUMBER
PREVIOUS DOCUMENT NUMBER:</td><td colspan="3">DOC/23/154865
DOC/23/37534</td></tr>
<tr><td>INTERNAL GOVERNANCE:</td><td colspan="3"></td></tr>
<tr><td>Author</td><td>Steven Ireland</td><td>Manager Financial Services</td><td>27 March 2023</td></tr>
<tr><td>Responsible General Manager:</td><td>Alex Oulianoff</td><td>General Manager Corporate Services</td><td>27 March 2023</td></tr>
<tr><td>Reviewed by CEO</td><td colspan="2">Andrew Stuart</td><td>19 April 2023</td></tr>
<tr><td>REVIEWED BY CGG</td><td colspan="2"></td><td>19 April 2023</td></tr>
<tr><td>APPROVED BY (DOCUMENT OWNER):</td><td colspan="3">Council</td></tr>
<tr><td></td><td colspan="2">OM20231204.07</td><td>4 December2023</td></tr>
<tr><td>APPLICABLE LEGISLATION AND RELATED DOCUMENTS:</td><td colspan="3">For Borrowings:
Local Government Act 1999 – Section 44, 122, 134, 135
Local Government (Financial Management) Regulations – 2011 – Regulations 5 & 7
For Investments:
Local Government Act 1999 – Section 47, 139, 140
• Funding Policy
• Commercial Policy
• Budget Management Corporate Policy
• Equity Accounts (Other Reserves) Management Corporate Policy</td></tr>
<tr><td>COMMUNITY PLAN 2020-2035 REFERENCE:</td><td colspan="3">Leadership and Good Governance

LGG Strategy 1.5 Demonstrate accountability through clear, relevant and easily accessible policies, corporate reporting and legislative compliance.</td></tr>
<tr><td>REVIEW CYCLE</td><td colspan="3">This Policy will be reviewed:
- every three years; or
- the frequency dictated in legislation, or
- earlier in the event of changes to legislation or related Policies and Procedures or ;
- if deemed necessary by the General Manager Corporate Services.
It is recognised that from time to time circumstances may change leading to the need for minor administrative changes to this document. Where an update does not materially alter this document, such a change may be made administratively. Examples include a change to the name of a Council department, a change to</td></tr>
</table>

	the name or a State or Federal Department, and a minor update to legislation which does not have a material impact. However, any change or update which materially alters this document must be by resolution of Council (if statutory) or the Chief Executive Officer (if administrative).		
NEXT REVIEW DATE	May 2026		
DOCUMENT HISTORY:			
DOCUMENT VERSION	**DATE**	**AUTHOR (PERSON TO WHOM CHANGES ARE TO BE RECOMMENDED)**	**NATURE OF CHANGE**
VERSION 1.0	23 November 2023	Steven Ireland	Revised Key Financial Indicators
VERSION 2.0			
VERSION 3.0			
DOCUMENT LOCATION:	Council website 4 January 2024 Available for inspection, downloading or printing from our website www.mountbarker.sa.gov.au		
	This Policy is available for inspection, during business hours at: Mount Barker District Council, Level 1, 6 Dutton Road, Mount Barker		