Council Policy

Treasury

COUNCIL POLICY

Adelaide Hills COUNCIL	**TREASURY**

Policy Number:	**FIN-03**
Responsible Department(s):	**Finance**
Relevant Delegations:	**As per the delegations schedule and as included in this Policy**
Other Relevant Policies:	**None**
Relevant Procedure(s):	**None**
Relevant Legislation:	***Local Government Act 1999***
Policies and Procedures Superseded by this policy on its Adoption:	**Treasury, 10/06/14, Item 12.3, 36** **Treasury, 26/09/17, Item 12.3, 208/17** **Treasury, 28/02/25, Item 12.3 21/24**
Adoption Authority:	**Council**
Date of Adoption:	**22 April 2025**
Effective From:	**1 May 2025**
Minute Reference for Adoption:	**133/25**
Next Review:	**No later than May 2028 or as required by legislation or changed circumstances**

Version Control

Version No.	Date of Effect	Description of Change(s)	Approval
1.0	*10 June 2014*	*New Policy*	Council
2.0	26 September 2017	Policy Review	Council
3.0	19 January 2021	Policy Review	Council
4.0	17 November 2021	Team Leader Finance added to Section 6.1	CEO
5.0	1 March 2024	Policy Review	Council
6.0	28 February 2025	Minor changes to clause 5.3 and 5.4, and Team Leder Financial Services added to clause 6.1	CEO
7.0	22 April 2025	Changes to Delegations and new loans.	Council

TREASURY POLICY

1. INTRODUCTION

1.1 This policy underpins Council's decision-making in the financing of its operations in the context of its annual business plan & budget and long-term financial plan and associated projected and actual cash flow receipts and expenditure.

1.2 Council has developed a Long Term Financial Plan and is committed to operating in a financially sustainable manner.

2. POLICY OBJECTIVES

2.1 This Treasury Policy provides direction to management, staff and Council in relation to the treasury function and establishes a decision framework that:

- ensures funds are available as required to support strategic objectives and approved expenditure.
- ensures that relevant risk exposures (including credit risk, market risk, liquidity risk and interest rate risk) are acknowledged and responsibly managed.
- is reasonably likely to minimise on average over the longer term, the net interest costs associated with borrowing and investing.
- ensures that outstanding debt is repaid as quickly as possible and therefore that the gross level of debt held by Council is minimised, and
- ensures that medium to longer term objectives of the Long Term Financial Plan are not compromised.

3. DEFINITIONS

3.1 **"Annual Business Plan"** In accordance with s123 of the *Local Government Act 1999* Council must have for each financial year a plan and budget that outlines annual and long term objectives, annual activities and measures of performance.

3.2 **"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 without unplanned increases in rates or disruptive cuts to services.

3.3 **"Intergenerational Equity"** Intergenerational equity (or fairness) involves the costs associated with expenditure being spread over time in accordance with the distribution of the benefits that are generated from that expenditure. It is commensurate with spreading costs in relation to the pattern of benefits over time so that one generation is not excessively subsiding another generation.

3.4 **"LGFA – Local Government Financing Authority**" A Government guaranteed statutory authority established to develop and implement borrowing and investment programs for the benefit of Councils and prescribed local government bodies within the State.

3.5 **"Long Term Financial Plan"** In accordance with s122 of the Local Government Act 1999 Council must develop and adopt a long term financial plan for a period of at least 10 years.

3.6 **"New Loans"** New loans are those loans which increase the total debt facilities of Council.

3.7 **"Net Financial Liabilities (NFL)"** NFL equals total liabilities less financial assets, where financial assets for this purpose include cash, investments, receivables and prepayments, but exclude equity held in a Council subsidiary, inventories and assets held for sale. The Net Financial Liabilities Ratio is calculated by expressing net financial liabilities at the end of the year as a percentage of total operating revenue for the year.

3.8 **"Surplus Funds"** Funds over and above a level which is required to meet Council's immediate working capital requirements

3.9 **"Treasury Management"** Refers to those activities which are related to the funding of Council operations. This includes funds management, cash flow budgeting, investment of surplus funds and borrowings

4. TREASURY MANAGEMENT STRATEGY

4.1 Operating and capital expenditure decisions are made based on:

- 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 (including consideration of the cost of capital and the impact of the proposal on Council's Net Financial Liabilities), and
- 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.

4.2 Council manages its treasury functions – borrowings, investments and associated cash flow holistically in accordance with its overall financial sustainability strategies and targets.

This means Council will:

- maintain a target range for its Net Financial Liabilities ratio
- generally only borrow funds to support cash flow and not specifically for particular Council projects
- only retain or quarantine money for a particular future purpose when required by legislation or part of an agreement

- apply where cost effective any funds that are not immediately required to meet approved expenditure, to reduce its level of borrowings or to defer and/or reduce the level of new borrowings that would otherwise be required.

4.3 Council recognises that on average the rate of return that can be received from investing money is less than the interest rate charged on borrowed funds. As such, 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.

4.4 Community self-funding loans borrowed on behalf of community groups fall outside this definition, having no net impact on Council's cash position.

5. POLICY

5.1 Intergenerational Equity Funding

Council shall strive to achieve equity between generations of ratepayers (intergenerational equity) whereby the mechanisms to fund specific capital expenditure and operations take into account the ratepayers who benefit from the expenditure and therefore on a user pay basis, who should pay for the costs associated with such expenditure.

5.2 Borrowings

The level of borrowings shall be considered in the context of Council's strategic priorities within the adopted Net Financial liabilities ratio and in conjunction with Council's Long Term Financial Plan to ensure the long-term sustainability of Council.

5.2.1 Short Term Cash Flow Management

Short term cash advances may be used to sustain the cash flows of Council having regard to anticipated receipts and expenditures and the annual cash flow budget. For this purpose Council may operate a cash advance facility from a financial institution and/or an overdraft on its bank account.

5.2.2 Interest Rate Risk Exposures

Council recognises that future movements in interest rates are uncertain in direction, timing and magnitude. Council considers that a mixture of both fixed and variable interest rate borrowings will assist in meeting Council's policy objective of minimizing net interest costs on average over the longer term and at the same time managing interest rate movement risks.

Management shall not speculate on interest rate movements.

5.2.3 Fixed and Variable Interest Rate Borrowings

Having regard to cost effectiveness, risk management criteria and flexibility, Council has structured its portfolio of borrowings to achieve 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 over the practically available maturity spectrum.

5.2.4 Risk Minimisation

To reduce the level of risk, which includes but is not limited to credit risk, market risk, liquidity risk and interest rate risk:

- Council approval is required for all new loans
- Loans are to be provided by institutions with long term credit ratings in line with the four major Australian banks
- All new loans are to be tendered to at least three lending institutions.

5.2.5 Borrowing Redemption

When surplus funds exist, the decision to repay borrowings shall be made based on the facts available at the time giving due regard to minimising the overall cost to Council.

5.3 **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.

Investments are limited to the following (unless as specifically endorsed by Council):

- Deposits with the Local Government Finance Authority
- Bank interest bearing deposits or investment accounts with Council's current banking service provider
- Bank accepted/ endorsed bank bills, and
- State / Commonwealth Government Bonds.

To manage the level of risk Council will limit its investments to secure organisations. The following investment types are prohibited under this policy:

- Derivative based instruments
- Principal only investments or securities that provide potentially nil or negative cash flow
- Stand alone securities issued that have underlying futures, options, forwards contracts and swaps of any kind, and
- Leveraging (borrowing to invest).

In addition, Council is prohibited from directly acquiring shares in a company.

5.4 **Reporting**
On or before 30 November, Council shall receive a specific report regarding treasury management performance of the previous financial year relative to this policy document.

This 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
- The portion of fixed interest rate and variable interest rate borrowings at the end date of the reporting period, and
- Confirmation of compliance with the policy during the year.

6. DELEGATION

6.1 Section 44 Part 1c of the Act provides that a council must approve all loans and clearly states that the power to borrow money cannot be delegated from the Council itself.

Whilst Council approves the total debt facilities, loan transactions can be entered into as per the below:

	CEO	Directors	Manager Financial Services	Management Accountant	Team Leader Financial Accounting
New loan (increase total debt facilities up to limits approved by Council)	Yes	Yes	Yes	No	No
Refinancing (No increase in total debt facilities)	Yes	Yes	Yes	No	No
Draw down of existing facilities (no increase in total debt facilities)	Yes	Yes	Yes	Yes	Yes

In relation to the above delegations, two officers are required to authorise the transaction.

In terms of Investments, there is no restriction upon the delegation of the powers at Section 139 or the duty at Section 140 of the Act.

New investment transactions have been delegated to any two of the following to authorise, who exercise the delegation together:

- CEO
- Directors
- Manager Financial Services

Investment transactions within existing approved facilities are delegated to one of the following to authorise:

- CEO
- Directors
- Manager Financial Services
- Management Accountant
- Team Leader Financial Services.

In relation to the above delegations, the officer initiating the transaction must be separate from the officer authorising the transaction.

6.2 **The Chief Executive Officer has the delegation to:**

6.2.1 Approve, amend and review any procedures that shall be consistent with this policy; and

6.2.2 Make any formatting, nomenclature or other minor changes to the Policy during the period of its currency.

7. AVAILABILITY OF THE POLICY

This Policy will be available for inspection at the Council's Offices during ordinary business hours and via the Council's website www.ahc.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.