



Treasury Management Policy

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Applicable Legislation:	<i>Local Government Act 1999</i> <i>Local Government (Financial Management) Regulations 2011</i>
Related Policies or Documents:	Fees & Charges Policy & Schedule Rating & Rebate Policy Funding Policy
Associated Forms:	NA
Responsible Manager:	Director Corporate Services Finance Department
Approved by Council:	8 June 2021
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Treasury Management Policy

1. Preamble

- 1.1. Council will maintain a Long-term Financial Plan and is committed to operating in a financially sustainable manner. The Local Government Act requires Council to approve all borrowings.

2. Purpose

- 2.1. This Treasury Management Policy provides clear direction to management, staff and Council in relation to the treasury function and establishes a decision framework which ensures that:
 - 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 Council is reasonably likely to optimize the net interest costs associated with borrowing and investing.

3. Scope

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

4. Definitions

- 4.1. **CEO** means the Chief Executive Officer of the Kangaroo Island Council.
- 4.2. **Council** means the Elected Body.
- 4.3. **Kangaroo Island Council (KIC)** means the administration.
- 4.4. **Borrowing** the action of sourcing a loan of money from a financial organisation.
- 4.5. **Interest Only Loan** the interest on the loan is paid to the lender and the principal remains unchanged.
- 4.6. **Fixed Interest** the interest rate is fixed for the term of the loan.
- 4.7. **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.
- 4.8. **Financial Assets** include cash, investments, current trade and other receivables and other current financial assets. Equity held in a Council business is normally regarded as a financial asset but is excluded for the purpose of calculating Local Government

published financial indicators. Also, inventories and land held for resale are not regarded as financial assets.

- 4.9. **Financial Sustainability** is achieved where planned long term service and infrastructure levels and standards are met without unplanned increases in rates or disruptive cuts to service.
- 4.10. **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.
- 4.11. **Interest Cover Ratio** indicates the extent to which a Council's operating revenues are committed to interest expenses. For the purposes of this ratio, Council's operating revenues are exclusive of investment income.
- 4.12. **Net Financial Liabilities Ratio** indicates the extent to which net financial liabilities of a Council could be met by its operating revenue.
- 4.13. **Non-Financial or Physical Assets** means infrastructure, land, buildings, plant, equipment, furniture and fittings, library books and inventories.
- 4.14. **Operating Deficit** occurs where the value of operating revenues less operating expenses is negative and operating income is therefore not sufficient to cover all operating expenses.
- 4.15. **Operating Expenses** are operating expenses including depreciation but excluding losses on disposal of non-financial assets.
- 4.16. **Operating Revenues** are "operating revenues" as shown in the Income Statement but exclude profit on disposal of non-financial assets and grants and contributions received specifically for new/upgraded infrastructure and other assets, eg from a developer. For Local Government published financial indicators calculated where the denominator specified is total operating revenue, Natural Resource Management (NRM) levy revenue is excluded.
- 4.17. **Operating Surplus** occurs where the value of operating revenues less operating expenses is positive and operating revenue is therefore sufficient to cover all operating expenses.
- 4.18. **Operating Surplus Ratio** is the operating surplus (deficit) expressed as a percentage of general and other rates net of rate rebates and revenues from the NRM levy.
- 4.19. **Rates Revenue** is general and other rates net of the impact of rate rebates and revenue from the NRM levy.

5. Policy Statement

5.1. Treasury Management Strategy

5.1.1. Operating and capital expenditure decisions are made based on:

- 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).

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

- will maintain target ranges for both its Net Financial Liabilities and Interest Cover ratios.
- may 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;
- may 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.

5.2. Interest Rate Risk Exposure

5.2.1. Fixed Interest Rate versus Variable Interest Rate Borrowings -

- a. Council recognises that future movements in interest rates are uncertain in direction, timing and magnitude. It considers it is appropriate to set range limits for 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. Therefore Council has approved as guidelines the range limits set out below.

Type of loan	Proportion of the Debt Portfolio	
	Minimum	Maximum
Floating Rate Debentures	30%	70%
Fixed Rate Credit Foncier	30%	70%

5.2.2. Fixed Interest Rate Borrowings -

- a. 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 one year, not less than 30% of its gross debt in the form of fixed interest rate borrowings.
- b. 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. Council will endeavour to have no more than one fixed interest rate borrowing maturing in any financial year.

- c. Council also will aim to ensure that no more than 25% of its fixed interest borrowings mature in any one year.
- d. Interest only loans are suitable if 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.
- e. Fixed rate loans can be either interest only or credit foncier.
- f. In the 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:
 - i. have a fixed interest rate;
 - ii. require interest payments only;
 - iii. allow the full amount of principal to be repaid (or rolled over) at maturity.
- g. 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.
- h. 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.

5.2.3. Variable Interest Rate (Floating Rate) Borrowings

- a. Council will restructure 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.
- b. Council will make extensive use of a variable interest rate borrowing facility and/or LGFA's Cash Advance Debenture facility that requires interest payments only, but enables any amount of principal to be repaid or redrawn at call. The redraw facility will provide the Council with access to liquidity and therefore eliminate the need to hold significant sums in liquid investments.
- c. These borrowing facilities will have:
 - a long-term maturity date;

- an interest rate which 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 LGFA Cash Advance Debenture is an example of such a product.)
- d. The outstanding level of drawdowns on the facility may vary significantly during a year and between years with the timing and extent of cash inflows and outflows. This flexibility requires adequate internal controls and delegations to be endorsed by Council. Drawdowns and repayments to and from the Cash Advance Debenture facility is an online process, requiring one signatory to log onto LGFA online portal, request/authorise transaction, with email notifications of each transaction being forwarded to second signatory. Fixed repayments of Debenture loans remains a manual process, with two authorised signatories required to sign documentation provided by the LGFA prior to each repayment falling due.

5.2.4. Investments

- a. As there is usually a significant margin between borrowing and investment rates, Council will seek to avoid holding investments (and particularly considerable investments) over extended periods of time.
- b. 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 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.
- c. 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 rates, 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.
- d. 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.
- e. Council management may from time to time invest surplus funds in:
 - Deposits with the Local Government Finance Authority; and/or
 - Bank interest bearing deposits.
- f. Any other investment requires specific approval of Council. If Council authorises any investment outside of those specified above, the amount so invested will be 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 investment.

5.2.5. Reporting

- a. When the Annual Accounts are finalised Council will 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;
 - 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.

6. Review and responsibilities

This Treasury Management Policy shall be reviewed by Council and the Audit & Risk Committee every two years.

7. Availability and Grievances

This Policy will be available for inspection at the Council's Offices 43 Dauncey Street, Kingscote during ordinary business hours and via the Council's website: www.kangarooisland.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.

Any grievances in relation to this policy or its application should be forwarded in writing addressed to the Chief Executive Officer, Kangaroo Island Council, PO Box 121, Kingscote SA 5223.

SIGNED:



Chief Executive Officer

History:		
Date Reviewed:	Version:	Reason for Amendment:
14 November 2008	Version 1	Adopted by Council
13 February 2009	Version 2	Inclusion of Delegations Cash Advance Debenture
13 June 2012	Version 3	Adoption of 2012/13 Budget

12 June 2013	Version 4	Annual Policy Review by Council 2013-14
13 August 2014	Version 5	Annual Policy Review by Council 2014-15
09 June 2015	Version 6	Annual Policy Review by Council 2015-16
09 June 2016	Version 7	Annual Policy Review by Council 2016-17
13 June 2017	Version 8	Annual Policy Review 2017-18 Ref# C189:2017
12 June 2018	Version 9	Annual Policy Review 2018-19 Ref# C176:2018
12 June 2019	Version 10	Annual Policy Review 2019-20 Ref# C214:2019
12 May 2020	Version 11	Council Policy Review
11 August 2020	Version 12	Update on Cash Advance Debenture Facility processes Minute: C435:2020
12 May 2021	Version 12A	Annual Policy review 2020-21
8 June 2021	Version 13	Reinstatement of the Update on Cash Advance Debenture Facility processes