| | District Council of Cleve | Version No: | 6 |
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| | | Issued: | June 2021 |
| | | Next Review: | June 2023 |

Policy Name: 7.6 - TREASURY

## 1. INTRODUCTION

In the past Council either borrowed for asset expenditure or utilised existing cash reserves.

Cash reserves are funds set aside for future purposes. For example, the replacement of Council's assets, whether they are plant and equipment or infrastructure. Until these funds are required they can be used for other purposes.

Investing cash whilst also borrowing may result in an interest differential cost to Council. It depends on what interest rate Council is currently paying on its existing loans compared to what interest could be earned on investing surplus funds. If, for example, Council was currently earning 5% on its invested cash there would be no financial benefit in paying off any existing loans where the interest rate is less than that earned.

## 2. OBJECTIVES

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

- ensures Council's annual projected budget result as defined is nil.
- ensures funds are available as required to support approved outlays by either setting reserve funds aside or borrowing in the Long Term Financial Plan.
- while ensuring that interest rate and other risks (e.g. liquidity risks and investment credit risks) are acknowledged and responsibly managed and are reasonably likely to minimise on average over the longer term, the net interest costs associated with borrowing and investing.

## 3. LEGISLATIVE REQUIREMENTS

Chapter 8 of the *Local Government Act 1999* – Sections 122 and 123 – generally provides that a Council should have Strategic Plans and an Annual Business Plan and Annual Budget. This implies a level of forward planning in relation to the management of the Council's funds. A related provision which requires certain prudential information to be gathered and analysed in relation to major projects is found in Chapter 4 – Section 48 – of the Act.

Chapter 9 of the *Local Government Act 1999* – Sections 133 and 134 – generally provides that a Council can:

- Obtain funds from a range of sources, including rates and borrowing, appropriate to the Council carrying out its functions (a very broad power).
- Borrow funds and enter into arrangements to protect against adverse interest rate movements on borrowings.

- Invest Council funds.

The *Local Government (Financial Management) Regulations* – Regulation 7 requires the preparation of a Budgeted Cash Flow Statement as part of the Council's annual budget papers.

## 4. WHEN DOES COUNCIL BORROW?

The management of Council's debt should focus on the net debt situation, that is, borrowings less investments. Council should ensure that they are not borrowing at higher interest rates when they have significant funds invested at lower interest rates. Focusing on principal and interest payments alone is inappropriate (but still important). Cash reserves and interest earned also contribute to the financial health of Council. Similarly, a net movement in principal (new debt less principal repayments) is the appropriate focus, as is net interest paid (or earned). It is the impact of net debt transactions that affect Council's ability to provide funds for operations. Note that a deficit in Council's annual budget result adds to (and a budget surplus reduces) net debt.

An alternative to borrowing, in the case of capital expenditure peaks and troughs, is to build up cash reserves in years when capital expenditures are lower and to use the cash reserves in years when higher expenditures are incurred. An inherent danger in cash reserves is that they can readily be diverted to other uses than those originally intended, leaving the Council with the alternative of raising funds from other sources or reducing operational expenditure. Cash reserves need to be carefully managed to both achieve optimum investment incomes and to be available when needed for the planned capital expenditure. Additionally, cash reserves and borrowings need to be monitored carefully to ensure an optimal net interest impact.

As part of the annual budget process Council will consider existing cash reserves held and the interest savings on using those funds rather than external debt.

Generally, capital expenditures on new major projects, which have long lives, should be paid for by the residents who will consume the services provided by the infrastructure. Using borrowings to pay for such expenditures allows the cost of providing the services to be spread over a number of years.

Where the borrowings are for commercial purposes, the return on the investment should be able to service the debt redemption, including consideration of community service obligations.

## 5. HOW ARE BORROWINGS STRUCTURED?

Consideration will be given to the structure of any borrowings that Council makes. Generally when interest rates are low they will be on a long-term, credit foncier fixed interest rate basis. When interest rates are increasing interest rate exposure may then be minimised with a mix of short and long term borrowings. The mix would also include fixed and floating interest rates.

## 6. BUDGET RESULT

Council has to maintain liquidity to be able to pay its liabilities when they fall due. Council's budget result is defined as follows:

Current Assets
Less: Trade & Other Payables
Less: Short-term Provisions
Less: Cash Backed Reserves

Equals the Budget Result

## 7. NET DEBT LEVEL

Council is required to report in its Annual Business Plan & Annual Budget, Financial Statements and the Long Term Financial Plan the following treasury indicators;

### 7.1 Net Financial Liabilities

What is owed to others less money held, invested or owed to Council

Calculated as:

Total Liabilities (from Balance Sheet)
Less: Current cash and cash equivalents
Current trade & other receivables
Current other financial assets
Non current financial assets

Council's limit is 60% of total annual revenue.

### 7.2 Net Financial Liabilities Ratio

Calculated as:

Net financial liabilities (as above)
Divided by:
Total operating revenues
Less: NRM levy raised

Council's limit is 60%

### 7.3 Interest Cover Ratio

How much income is used in paying interest on borrowings? This ratio indicates the extent to which Council's operating revenues are committed to net interest expense. This ratio is currently negative as Council's investment income exceeds its financing costs.

Calculated as:

Finance costs expense
Less: Investment Income
Divided by: Total operating revenues
Less: NRM levy raised
Less: Investment Income

Council's limit is 5%.

## 8. REPORTING REQUIREMENTS

### 8.1 Valuation and Measurement

All reports are to account for borrowings in accordance with the provisions of Accounting Standard:

- AASB 7 Financial Instruments: Disclosures
- AASB 132 Financial Instruments: Presentation
- AASB 139 Financial Instruments: Recognition and Measurement.

Annual averages are to be calculated by using the weighted average of end of month balances.

### 8.2 Annual Review

Each year a report will be prepared which summarises the cost of new debt and any savings achieved by using existing cash reserves rather than debt in accordance with the Reserve Policy.

## 9. 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 http://www.cleve.sa.gov.au. Electronic versions are the controlled version. Printed copies are considered uncontrolled. Before using a printed copy, verify that it is the current version.

## 10. ADOPTION OF POLICY

This Policy was adopted by the Council at its Ordinary Council meeting on 14 December 2021.

Rob Donaldson
Acting Chief Executive Officer

## 11. DOCUMENT REVIEW

The Council may review this policy from time to time, however it is anticipated that a review of the policy will be under taken each second year. Council has the right to review this policy at any time, if considered desirable.

## 12. REVIEW HISTORY

| Version | Issue Date | Author | Reason for Change |
|---|---|---|---|
| 3.0 | 14/12/2021 | M Quinn | Minor updates following Council election 2018<br>Formatting<br>Added legislation, availability of policy, adoption of policy, document review and review history sections. |