1. INTRODUCTION

The Local Government Act requires LGs to have a long-term financial plan and to use accrual accounting. These changes have been catalysts for changes in treasury management practices.

Treasury Management refers to the way in which borrowings are raised and cash and investments are managed.

2. PURPOSE OF THIS POLICY

This Treasury Management Policy provides clear direction to the Legatus Group ('LG') in relation to the treasury function and establishes that a decision framework 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;
- That subject to LG's capital expenditure decisions, the gross level of debt is minimised; and
- Over the longer term it is reasonably likely to optimize the net interest costs associated with borrowing and investing.

3. SCOPE OF THE POLICY

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

LG will maintain a Long-term Financial Plan and is committed to operating in a financially sustainable manner.

The Local Government Act requires LG to approve all borrowings. LG discharges this responsibility by approving borrowings for the year at the time the annual budget is adopted.

3.1 Treasury Management Strategy

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 LG's long-term financial sustainability (including consideration of the cost of capital and the impact of the proposal on LG's Net Financial Liabilities).

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

- maintain target ranges for its Net Financial Liabilities
- not retain and quarantine money for particular future purposes unless required by legislation or agreement with other parties;
- 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.

3.2 Interest Rate Risk Exposure

3.2.1 FIXED INTEREST RATE VERSUS VARIABLE INTEREST RATE BORROWINGS

LG recognises that future movements in interest rates are uncertain in direction, timing and magnitude.

LG will structure its portfolio based upon a review of the interest rate environment at the time and based upon financial advice.

3.3 Investments

As there is usually a significant margin between borrowing and investment rates, LG will seek to avoid holding investments (and particularly considerable investments over extended periods of time).

LG 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.

LG 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 LG's variable interest rate borrowing facility.

When investing funds within the above criteria the investment which delivers the best value to LG is to be selected having regard to investment returns, transaction costs and other relevant and objectively quantifiable factors.

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

- Deposits with the Local Government Finance Authority; and/or
- Bank interest bearing deposits.

Any other investment requires specific approval of LG.

Reporting

When the Annual Accounts are finalised LG 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 LG 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.

4. DEFINITIONS

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.

Financial Assets – include cash, investments, receivables and prepayments. Equity held in a LG 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.

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.

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 LG business, inventories and land held for resale.

Interest Cover Ratio – indicates the extent to which a LG's operating revenues are committed to interest expenses. For the purposes of this ratio, LG's operating revenues are exclusive of investment income.

Net Financial Liabilities Ratio – indicates the extent to which net financial liabilities of a LG could be met by its operating revenue.

Non–Financial or Physical Assets – means infrastructure, land, buildings, plant, equipment, furniture and fittings, library books and inventories.

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.

Operating Expenses – are operating expenses including depreciation but excluding losses on disposal of non-financial assets.

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. For the purpose of calculating the Interest Cover Ratio investment income also is excluded from the denominator.

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.

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. (NRM expenditure should also be removed from the surplus/(deficit)

Rates Revenue – is general and other rates net of the impact of rate rebates and revenue from the NRM levy.

5. RESPONSIBILITIES

The Finance Manager is responsible for the updating, maintenance and review of the accounting policy to ensure that all accounting treatments are up to date and consistent with the Australian Accounting Standards.

It is the responsibility of the Audit Committee to review on an annual basis the report on LG's treasury management performance.

External Auditor is responsible for the review of the financials to ensure consistency with Accounting Standards and with the above accounting policy.

Signature: Date: 12 June 2020

Chief Executive Officer

If a conflict exists with any law in Australia, then the provisions of the law in Australia will prevail to the extent of the conflict.

6. LEGISLATION

Local Government Act 1999

Local Government (Financial Management) Regulations 2011

Australian Accounting Standards

6.1 For Borrowings

Local Government Act 1999 – Sections 44, 48, 122 and 134

6.2 For Investments

Local Government Act 1999 – Sections 47, 139 and 140

7. AVAILABILITY & GRIEVANCES

This policy is available for inspection at LG office at 318 Main North Road, Clare during ordinary business hours.

It is also available for inspection, download or printing, free of charge, from LG's website at www.legatusgroup.sa.gov.au

Any grievances in relation to this policy or its application should be forwarded in writing addressed to the Chief Executive Officer, Legatus Group, PO Box 419, Clare SA 5453.

8. REVIEW

This Legatus Group Policy shall be reviewed by LG within (4) years of the issued date.

Date	Revision Number	Reason for Amendment
5 June 2020	1	No amendment