

▶ TREASURY MANAGEMENT POLICY

POLICY NUMBER: 50 (C)

NAME OF POLICY: TREASURY MANAGEMENT POLICY 2021

DATE OF NEXT REVIEW: 20 July 2025

DATE APPROVED: 20 July 2021

RESPONSIBLE OFFICER: Manager Financial Services

REFERENCES: *Local Government Act 2020*

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1. INTRODUCTION

Council is committed to operating in accordance with the financial management principles defined by the *Local Government Act 2020*.

This Policy is concerned with the activities of investing and borrowing of funds (money) and ensures that investing and borrowing activities are consistent with the financial management principles.

It ensures that those activities are conducted in a risk-controlled manner and managed prudently, so that investing and borrowing has a predictable financial outcome.

It ensures that Council's money is safely invested, investment returns are maximised and borrowing costs are minimised.

This Policy includes –

- Legislative requirements.
- Objectives.
- Types of investments and borrowings.
- Risk management and internal controls.
- Selection criteria for investments and borrowings.
- Monitoring and reporting.

It does not include matters (such as Council's Borrowing Strategy) which are found in Council's financial plans (in particular, the long-term financial plan, but also the Revenue and Rating Plan and Budget).

2. SCOPE

This Policy applies to all investing and borrowing of funds by Hepburn Shire Council.

3. LEGISLATIVE REQUIREMENTS

Division 4 of the *Local Government Act 2020* is reproduced below.

101 Financial management principles

- (1) *The following are the financial management principles—*
 - (a) *revenue, expenses, assets, liabilities, investments and financial transactions must be managed in accordance with a Council's financial policies and strategic plans;*
 - (b) *financial risks must be monitored and managed prudently having regard to economic circumstances;*
 - (c) *financial policies and strategic plans, including the Revenue and Rating Plan, must seek to provide stability and predictability in the financial impact on the municipal community;*
 - (d) *accounts and records that explain the financial operations and financial position of the Council must be kept.*
- (2) *For the purposes of the financial management principles, **financial risk** includes any risk relating to the following—*
 - (a) *the financial viability of the Council;*
 - (b) *the management of current and future liabilities of the Council;*
 - (c) *the beneficial enterprises of the Council.*

102 Financial policies

- (1) *A Council must prepare and adopt financial policies that give effect to the financial management principles.*
- (2) *A financial policy must include any matters prescribed by the regulations.*

103 Investments

A Council may invest any money—

- (a) *in Government securities of the Commonwealth; and*
- (b) *in securities guaranteed by the Government of Victoria; and*
- (c) *with an ADI; and*
- (d) *with any financial institution guaranteed by the Government of Victoria;
and*
- (e) *on deposit with an eligible money market dealer within the meaning of the
Corporations Act; and*
- (f) *in any other manner approved by the Minister, either generally or
specifically, to be an authorised manner of investment for the purposes of
this section.*

104 Borrowings

A Council cannot borrow money unless the proposed borrowings were included in the budget or a revised budget.

105 Accounts and records

(1) *The Principal Accounting Officer of a Council must ensure that there are kept proper accounts and records of the transactions and financial affairs of the Council.*

(2) *A failure by a Council to keep proper accounts and records and the reason for that failure must be reported in the annual report.*

4. INVESTMENT FRAMEWORK

It has been Council's practice to develop a Budget based on achieving a balanced cash position, that is, generating at least the same amount of income, during the year as is spent on operations and capital works.

Income includes rates, fees, grants and contributions. Expenditure includes creditor payments (including contracts), payroll payments and loan repayments.

The majority of funds available for investment comprise of money received in advance of the programs and works being undertaken (that is, the money being spent). Trust funds, deposits and money in financial reserves are also available for investment.

Funds available for investment are shown under Assets in the Balance Sheet in the Annual Financial Report and full disclosure is provided in the Notes to the Financial Statements.

4.1 Objectives

To seek a balanced investment portfolio which delivers a strong return on the invested funds whilst safeguarding those funds and being able to access them as cash flow requirements demand.

Also, to give preference to Authorised Deposit-taking Institutions, which do not invest in or finance the fossil fuel industry.

These objectives, in order of importance, are –

- Safeguarding Council's investments (refer sections 4.3 to 4.6).
- Maintaining sufficient liquidity (refer sections 4.7 to 4.9).
- Maximising the return on invested funds (refer section 4.10).
- Preferring Authorised Deposit-taking Institutions, which do not invest in or finance the fossil fuel industry.

4.2 Authority to invest

S7 Instrument of Sub-Delegation by the Chief Executive Officer specifies those Officers who have authority to invest money on behalf of Council in accordance with Section 103 of the *Local Government Act 2020*.

4.3 Safeguarding investments

Safeguarding investments involves –

- Investing with Australian owned Authorised Deposit-taking Institutions (ADIs).
- Investing with ADIs which have a credit rating specified in section 4.4 of this Policy.
- Diversifying investments across different ADIs to minimise exposure to risk.

4.4 Credit rating

Council will reference *S&P Global Ratings* (refer Appendix) and will only invest funds in Australian owned ADIs with a minimum credit rating of BBB for long term investments and a minimum credit rating of A-3 for short term investments.

The maximum allocation of investments with each credit rating category, measured at the time of placing the investment, is represented in the following table.

<i>S&P Global Ratings</i> (long term credit rating)	<i>S&P Global Ratings</i> (short term credit rating)	Maximum Allocation (% of available funds for investment)	Maximum Allocation per ADI (% of available funds for investment)	Limit per ADI
AAA	A1+	100%	80%	\$12 Million
AA	A1	100%	75%	\$10 Million
A	A2	75%	50%	\$7.5 Million
BBB	A3	60%	40%	\$5 Million

The investment limits do not include money held in Council's bank accounts.

4.5 Change in credit rating

If the credit rating of an ADI, in which funds are currently invested, is downgraded, then a risk assessment will be undertaken. If it is determined that the risk of retaining the investment has risen to an unacceptable level of likelihood and consequence, then the investment will be divested as soon as possible.

4.6 Types of investment

Only the following types of investment are acceptable –

- Cash Deposits
- Bonds
- Debentures
- Term Deposits
- Negotiable Certificates of Deposits and Bank Bills
- Transferable Certificates of Deposit
- Floating Rate Notes and Floating Rate Certificates of Deposit.

4.7 Maintaining sufficient liquidity

Maintaining sufficient liquidity involves –

- Monitoring budget to actual performance on a regular basis.
- Preparing cash flow forecasts (refer section 4.8).
- Maintaining a minimum average level of cash and cash equivalents which is sufficient to cover up-coming creditor payments, payroll payments and other planned major outlays such as loan repayments (refer section 4.9).

4.8 Cash Flow Forecast

A Cash Flow Forecast for anticipated operating income and expenditure will be maintained by the Coordinator Financial Services.

The Cash Flow Forecast will be used to assist in (a) investment planning and (b) maintaining sufficient liquidity for up-coming financial commitments.

If it is forecast that there will be a significant positive cash flow for a sufficient period to invest, then funds may be invested in accordance with this Policy.

4.9 Funds available for investment

The Coordinator Financial Services Funds will monitor Council's bank accounts to ascertain if any funds are available for investment and to ensure that Council's general bank account does not go into overdraft.

Funds will be considered as available for investment after sufficient operating and at call funds are held in accounts by applying the following limits –

- Maintaining an average monthly operating bank balance of \$400,000.
- Maintaining an average monthly at call balance of \$1,500,000.

4.10 Maximising returns

Maximising the return on investment involves investing funds whilst safeguarding investments and maintaining sufficient liquidity for operations.

The period of investment will be determined in accordance with the cash flow forecast.

Council will seek quotes from Australian owned ADIs including the local Bendigo Bank Community Banks.

At least three written quotes must be received before investing or reinvesting funds.

Except as allowed for in the following paragraph, providing all requirements of this Policy have been complied with, then the quote(s) offering the highest interest rate return(s) will be accepted.

To support the local economy and community, Council may invest in a local Bendigo Bank Community Bank, when its quote is between 0.01% and 0.2% per annum less than the highest quote received.

4.11 Investing in Institutions which do not support the fossil fuel industry

To ensure Council reduces investment in any company for whom the extraction, production, refining, or distribution of fossil fuels forms a core part of their business, Council will give preference to Authorised Deposit-taking Institutions which do not invest in or finance the fossil fuel industry, providing that Council's investment complies with all other policy objectives defined in Section 4.

5. INTERNAL CONTROLS – INVESTMENTS

All investment transactions will be appropriately authorised, documented and reported as described in this section.

5.1 Money to be transferred using the general bank account

All investments being placed will be derived from funds transferred from Council's general bank account. On maturity, all investments will be redeemed to Council's general bank account. The interest earned on investments will be redeemed to Council's general bank account at the time of maturity. Funds will be transferred electronically and will be authorised by two Authorised Officers.

5.2 Documentation

Investment confirmations will be sought in writing within one day of placing an investment. Confirmations will be checked to ensure accuracy. Any identified discrepancies will be rectified immediately.

5.3 Authorisation of Investments

The following internal controls will apply to the authorisation of investments –

- 1) The Coordinator Financial Services will obtain three quotes for each investment from prospective ADIs.
- 2) The Manager Financial Services will –
 - a. review the quotes;
 - b. select the most appropriate quote according to section 4 of this Policy; and
 - c. approve the investment in writing.
- 3) The Coordinator Financial Services will prepare an electronic file for online transmission to the ADI.
- 4) The Coordinator Financial Services will provide the electronic file to two Authorised Officers who will authorise the file.

- 5) Where an investment is to be withdrawn to Council's general bank account, the withdrawal will be arranged by the Coordinator Financial Services and approved by one of the Authorised Officers.

5.4 Investment Register and reconciliation controls

The Coordinator Financial Services will maintain an Investment Register as follows –

- 1) The Investment Register will be updated following each investment and will be reconciled to the ledger as part of the monthly Balance Sheet reconciliation process.
- 2) The Investment Register will include –
 - Type of investment.
 - Name of ADI.
 - Investment date.
 - Maturity date.
 - Period of investment.
 - Amount invested.
 - Interest rate.
 - Interest earned and received.
- 3) Investments will be entered in the general ledger.
- 4) Journals will be prepared to update additional, rolled over or withdrawn investments to their appropriate general ledger investment control accounts.
- 5) A monthly reconciliation will be completed comparing general ledger investment control accounts to the Investment Register.
- 6) The reconciliation will be reviewed and approved by the Manager Financial Services.

5.5 Reporting

The Coordinator Financial Services will prepare an end-of-month report of investment activities to the Director Corporate and Community Services and the Manager Financial Services.

The report will summarise –

- Total cash holdings (including totals of restricted cash balances)
- The average interest rate held, with a comparison to the 90 Day Bank Bill Rate and the RBA Cash Rate.
- Total Investment Balances at month end.

The Manager Financial Services will include a Report of Investments, as part of the Quarterly Budget Report to Council (in accordance with Section 97 of the *Local Government Act 2020*).

6. BORROWING FRAMEWORK

In accordance with Section 91 of the *Local Government Act 2020*, Council will develop a long-term Financial Plan, which will include Council's Borrowing Strategy.

In accordance with Section 104 of the *Local Government Act 2020*, Council may borrow money providing the borrowings are included in the Budget.

If Council includes borrowings in its Budget, then this Policy prescribes the actions and internal controls that will be applied.

6.1 Objectives

To seek a financially sustainable and affordable loan portfolio, whilst minimising the borrowing costs, and structuring the borrowing so that it is appropriate for the nature of the asset being funded.

To achieve these objectives, Council will seek quotes in a competitive market.

6.2 Authority to borrow

In accordance with Section 1(2)(l) of the *Local Government Act 2020*, Council may not delegate the authority to borrow money.

Therefore, in accordance with Section 104 of the *Local Government Act 2020*, Council will make its borrowing determinations as part of the annual Budget process (and revised Budget process, if applicable).

In making its borrowings determinations, Council will have proper regard for its borrowing strategy as described in the long-term Financial Plan and its objectives as described in the Council Plan.

Following adoption of the Budget –

- The Chief Executive Officer has authority to accept loan offers, in accordance with the requirements of this Policy.
- The Mayor and the Chief Executive Officer have authority to sign and seal all relevant loan documents on behalf of Council.

6.3 Loan duration

In normal circumstances loans should have a maximum repayment period as follows –

- For assets with an estimated minimum useful life of 10 years or less, the loan should be repaid within the asset's estimated minimum useful life to Council.
- For assets with an estimated minimum useful life of greater than 10 years, the loan should be repaid over 10 years to recognize that after this time, most assets require significant levels of maintenance and/or renewal.
- For assets with a value of greater than \$5 million, Council should consider inter-generational equity and give regard to repaying the loan over longer than 10 years.

6.4 Early repayment of loan

When preparing its Budget, Council may consider allocating funds for the early repayment of a loan based on the facts available at the time and having due regard to reducing the overall cost to Council.

7. INTERNAL CONTROLS – BORROWINGS

All borrowing transactions will be appropriately authorised, documented and reported as described in this section.

Banks, the MAV's Local Government Funding Vehicle and other funding options may be used as sources of loans.

7.1 Seeking quotes

The process of seeking and evaluating quotes for a loan will be guided by Council's Procurement Policy.

The Coordinator Financial Services will prepare a Request for Quote which will comprise the Evaluation Criteria, Conditions of Submitting a Quote (including closing dates), Specification and Response Form.

To support the local economy and community, the Request for Quote will be provided to the local Bendigo Bank Community Banks.

It will also be provided to the major banks.

The Specification will stipulate the –

- Principal to be borrowed.
- The term of the loan.
- The type of loan (generally a principal amortising loan, that is the full principal of loan to be amortised over its term).

- The type of interest rate (generally a fixed rate).
- The number of Instalments and the expected payment dates (generally two instalments of equal amount per financial year).
- The expected date that the loan will be drawdown.

7.2 Evaluation and accepting quotes

The Coordinator Financial Services will establish an Evaluation Panel, and the Panel members will be required to complete a “Conflict of Interest and Confidentiality Declaration”.

After quotes close, the Panel will undertake the evaluation and make a recommendation to the Chief Executive Officer.

The Chief Executive Officer will consider the recommendation and may determine to accept a quote in accordance with section 6.2 of this Policy.

7.3 Reporting

Borrowing ratios will be reported in the long-term Financial Plan, the Budget and the Annual Report.

8. DEFINITIONS

Term	Definition
Council	Hepburn Shire Council
Authorised Officers	The Chief Executive Officer and members of Council staff holding, acting in or performing the duties of the office or position authorised to invest money in accordance with the <i>Local Government Act 2020</i> .
Operating Funds	Funds contained in a cheque or operating account used for daily transaction purposes.

Term	Definition
At Call Funds	Cash held in Cash Deposit Account or similar and available for immediate transfer of funds as required.
Authorised deposit taking institution (ADI)	A financial institution licensed by the Australian Prudential Regulatory Authority to carry on banking business, including accepting deposits from the public. ADIs include banks, building societies and credit unions.
MAV Local Government Funding Vehicle (LGFV)	The MAV established the LGFV in 2014 with the aim of providing funding to councils directly from capital market investors.

9. GOVERNANCE

9.1 Owner

The Manager Financial Services is responsible for the Policy and its implementation.

9.2 Further Information

The Policy is available to the public via Council's website.

Questions about the Policy should be directed to the Manager Financial Services.

9.3 Compliance Responsibility

- Chief Executive Officer.
- Director Corporate and Community Services.
- Manager Financial Services.

9.4 Operation

The Policy is operational from the date it is adopted by Council until the date it is rescinded by Council unless its operation becomes obsolete by circumstances beyond the control of Council.

The Chief Executive Officer is authorised to make minor administrative amendments to the Policy.

9.5 Review

The Policy will be reviewed every four years or sooner if required by Council or changes in legislation.

The Manager Financial Services is responsible for the review.

The Chief Executive Officer may also cause the Policy to be reviewed if there is a significant change in investment market conditions or borrowing market conditions.

10. APPENDIX – S&P GLOBAL RATINGS

Credit ratings are forward looking opinions about an organisation's relative creditworthiness. They provide a common and transparent global language for investors to form a view on and compare the relative likelihood of whether an organisation may repay its debts on time and in full. Credit Ratings are one of the criteria that investors and other market participants can consider as part of their decision-making processes.

S&P Global Ratings (previously Standard & Poor's) is a credit rating agency that publishes financial research and analysis on stocks, bonds, and commodities. It is designated as a nationally recognized statistical rating organization by the U.S. Securities and Exchange Commission.

S&P Global Ratings issues credit ratings for the debt of public and private companies, and other public borrowers such as governments and governmental entities. It issues both short-term and long-term credit ratings as shown in the table below.

As defined in Section 4.4 of the Policy Council will only invest funds in ADI's with a minimum credit rating of A3 for short term investments and BBB for long term investments.

Short Term Rating (1 to 365 days).

- A1+ extremely strong degree of safety for timely payment
- A1 a strong degree of safety for timely payment
- A2 a satisfactory capacity for timely payment
- A3 an adequate capacity for timely payment
- B significant speculative characteristics
- C vulnerable to non-payment
- D in payment default.

Long Term Rating (greater than 12 months).

- AAA Extremely strong capacity to meet financial commitments
- AA Very strong capacity to meet financial commitments

- A Strong capacity to meet financial commitments, but somewhat susceptible to economic conditions and changes in circumstances
- BBB Adequate capacity to meet financial commitments, but more subject to adverse economic conditions
- BB Less vulnerable in the near-term but faces major ongoing uncertainties to adverse business, financial and economic conditions
- B More vulnerable to adverse business, financial and economic conditions but currently has the capacity to meet financial commitments
- CCC Currently vulnerable and dependent on favorable business, financial and economic conditions to meet financial commitments
- CC Highly vulnerable; default has not yet occurred, but is expected to be a virtual certainty
- C Currently highly vulnerable to non-payment, and ultimate recovery is expected to be lower than that of higher rated obligations
- D Payment default on a financial commitment or breach of an imputed promise.