

▶ TREASURY MANAGEMENT POLICY

POLICY NUMBER: 50 (C)

NAME OF POLICY: TREASURY MANAGEMENT POLICY

DATE OF NEXT REVIEW: December 2019

DATE APPROVED: 19 January 2016

RESPONSIBLE OFFICER: Manager Finance and Information Technology

REFERENCES: Local Government Act 1989

### **Best Value Principles**

Hepburn Shire Council has the responsibility to provide its ratepayers with best value, with all services provided by Council meeting the expectations in terms of quality and cost. In providing this, all services need to be accessible, responsive to the needs of the community, considerate of the natural environment and subject to continuous improvement.

To achieve the best over life outcome for Council's expenditures, which meets quality and service expectations, there will be periodic review of services against best on offer in both the public and private sectors.

All Council staff members are responsible for supporting best value principles in their normal day to day actions to ensure services are recognised by the community as delivering best value.

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### INTRODUCTION

This policy sets the framework for treasury functions to be followed by authorised officers of Hepburn Shire Council based on sound financial management principles.

The policy objectives are to ensure that:

- Sufficient funds are available to meet daily cash requirements and appropriate levels of funds are available at the appropriate time to support Council's strategic objectives;
- Investment activities are transacted to take advantage of the interest earning potential of surplus funds;
- Investment decisions are made based on the security of invested funds by limiting Council's exposure to risk;
- Council mitigates its exposure to risk while optimising its return on investment of surplus funds;
- Borrowing costs are minimised;
- Borrowing decisions consider the optimum time to borrow, taking into account cash requirements, interest rates, loan options and economic conditions;
- Where possible, the structure of the borrowing is appropriate for the nature of the asset being funded;
- All investments and borrowings are made in accordance with the Local Government Act, 1989
- Effective internal controls exist and are followed to minimise the risk of unauthorised transactions and the misappropriation of Council funds;
- All transactions are appropriately authorised and documented.

### SCOPE

The policy applies to all investment and borrowing of funds by Hepburn Shire Council.

### POLICY

#### 1. Legislative Framework

All investments shall comply with Section 143 of the Local Government Act 1989 (extract below) and relevant regulations and Minister's guidelines.

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- (1) A Council may invest any money-
- (a) in Government securities of the Commonwealth;
  - (b) in securities guaranteed by the Government of Victoria;
  - (c) with an authorised deposit-taking institution;
  - (d) with a financial institution guaranteed by the Government of Victoria;
  - (e) on deposit with an eligible money market dealer within the meaning of the Corporations Act;
  - (f) in any other manner approved by the Minister after consultation with the Treasurer either generally or specifically, to be an authorised manner of investment for the purpose of this sub-section.

All borrowings shall comply with Part 7 Financial Management of the Local Government Act 1989. Part 7 includes Section 144 which provides Councils the power to borrow. S.144(1) states "Subject to the principles of sound financial management, a Council may borrow money to enable the Council to perform the functions and exercise the powers conferred on the Council under this Act or any other Act."

## 2. Investment Framework

### 2.1 Currency

All investments are to be denominated in Australian dollars.

### 2.2 Authorised investments

Funds are to be invested in accordance with Section 143 of the Local Government Act, Regulations and any directions of the Minister.

The opportunity offered under part (e) is not considered as an authorised investment as it is outside Council acceptable risk level, as are interest rate derivatives or hybrid investments.

### 2.3 Authorised financial institutions

Investments may be placed with any authorised deposit taking institution, based on their credit rating and in conjunction with Council's portfolio credit framework. Where appropriate, consideration of the financial

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institution's local presence in the Shire, community support credentials, ethics and actions of the institution to minimise environmental harm shall be given.

### 2.4 Portfolio credit framework

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

| Long Term<br>(S&P or<br>equivalent) | Short Term<br>(S&P or<br>equivalent) | Maximum<br>Allocation | Max. Allocation<br>per Institution<br>(% of Portfolio) | Individual<br>Institution<br>Limit |
|-------------------------------------|--------------------------------------|-----------------------|--|------------------------------------|
| AAA                                 | A-1+                                 | 100%                  | 80%  | \$12 Million                       |
| AA+ to AA-                          | A-1+                                 | 100%                  | 75%  | \$10 Million                       |
| A+ to A-                            | A-1                                  | 75%                   | 50%  | \$7.5 Million                      |
| BBB+                                | A-2                                  | 40%                   | 20%  | \$2.5 Million                      |

### 2.5 Change in credit rating

If the Standard and Poor's (S&P) rating of any of Council investments are downgraded, such that they pose a significant risk to Council, an assessment of risk and financial cost is to be made. If recommended the investment is to be divested within 60 days.

### 2.6 Form of investment

Any of the following forms of investment are acceptable:

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

## 2.7 Funds available for investment

Funds will be considered as available for investment after sufficient operating and at call funds are held in accounts by administering the following objectives;

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

Surplus funds will be invested, in accordance with this policy, to maximise the revenue available to Council.

## 2.8 Investment duration

The duration of investments will be from 7 days to 5 years. The maximum amount of funds to be invested long term, as an objective, shall be measured to Council's Long Service Leave (LSL) liability plus any notional annualised principal of interest only loans. The balance of investments are to be of short or medium term funds duration.

Definition of Terms

| Term        | Timeframe              | Balance Sheet Classification |
|-------------|------------------------|------------------------------|
| At Call     | Access within 24 hours | Cash & Cash Equivalents      |
| Short Term  | 2 to 120 days          | Cash & Cash Equivalents      |
| Medium Term | 120 days to 365 days   | Other Financial Assets       |
| Long term   | 1 – 5 years            | Other Financial Assets       |

## 3. Process Guidelines

### 3.1 Money to be transferred using the general bank account

All investments being placed must be derived from funds transferred from Council's general bank account. On maturity, all investments must be redeemed to Council's general bank account. The interest earned on investments is to be redeemed to Council's general bank account at the time of maturity. Funds may be transferred electronically or via cheque and will be authorised by two officers with authorisation to sign on the general bank account

### **3.2 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 must be rectified immediately.

### **3.3 Quotations to be sought**

A minimum of three (3) quotations will be obtained on behalf of authorised institutions whenever an investment is proposed. The quotation that delivers the best value to Council, received before the specified cut-off time, shall be successful, subject to compliance with the investment framework above.

### **3.4 Reporting**

Investment activities and results must be reported to the General Manager Corporate Services monthly. All quotations and investment advices are to be retained in Council's corporate record management system.

### **3.5 Delegation**

Authorised officers are permitted to place investments in accordance with this policy. Due consideration must be given to Council's future cash flow requirements with investments placed to maximise best value for Council. The Financial Accountant shall be responsible for;

- Preparing forecast cash flow requirements;
- Actioning the investment or redemption;
- Collating and filing investment documents for each individual transaction.

## **4. Borrowing Framework**

### **4.1 Currency**

All borrowings are to be denominated in Australian dollars.

### **4.2 Financial management**

Borrowing activities will be undertaken in a manner that minimises risk to Council. Council must implement the principles of sound financial management. This includes:

- managing financial risks;

- pursuing spending and rating policies that are consistent with a reasonable degree of stability;
- making decisions of intergenerational equity;
- ensuring the disclosure of financial information

#### **4.3 Long term sustainability of Council**

The level of borrowing shall be within acceptable prudential limits to ensure long-term sustainability. Council needs to ensure that the amount of borrowing does not exceed these limits, so that debt servicing costs can be met on an ongoing basis without undue impact on future councils and ratepayers. Council is to refer to specific target ratios set out in its 10 Year Financial Plan when determining the level of borrowings each year.

#### **4.4 Reporting and Monitoring**

Details of borrowing ratios will be provided as part of the annual budget documentation together with the trend of these ratios in the long term financial plan. Ratios will be reported annually in Council's Annual Report.

#### **4.5 Loan Approval**

All new loans must be approved by Council as part of the Council's budget approval process. At the time the funds are to be borrowed, the CEO will accept the most advantageous quote to enable a contract to be produced.

#### **4.6 Borrowing duration**

In normal circumstances borrowing for capital works should have a maximum repayment period as follows:

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

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repaying debts over a greater than 10 year period so that the cost of the asset is spread over different generations of ratepayers.

The repayment period on borrowings for other non recurrent items should have a maximum repayment period of 10 years.

#### 4.7 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 the Council.

### DEFINITIONS

The following terms are referred to in the policy.

| Term                                  | Definition   |
|---------------------------------------|--|
| Council                               | Hepburn Shire Council  |
| Council Staff                         | Includes permanent and temporary full-time and part-time council employees, and contractors and consultants while engaged by Council.  |
| Authorised Officers                   | Includes the Chief Executive Officer, General Manager Corporate Services, Manager Finance & IT, Financial Accountant, Manager People and Performance. The CEO has delegated authority to nominate additional authorised officers as necessary. |
| The Act                               | <i>Local Government Act 1989</i>   |
| Investment Funds                      | Surplus funds invested for the purpose of earning additional revenue, excludes operating funds and "at call" funds.  |
| Operating Funds                       | Funds contained in a cheque or operating account used for daily transaction purposes.  |
| At Call Funds                         | Cash held in an "At Call" or Cash Deposit Account or similar available for immediate transfer of funds as required.  |
| Authorised deposit taking institution | A body corporate, which is authorised to carry on banking business in Australia under the Banking Act 1959. It will cover banks, building societies, credit unions, etc.   |

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| Term                                  | Definition   |
|---------------------------------------|--|
| Real Time Gross Settlement (RTGS)     | Funds transfer systems where transfer of money or securities takes place from one bank to another, not subjected to any waiting period and settled on one to one basis without bundling or netting with any other transaction. Once processed, payments are final and irrevocable.                         |
| Standard & Poor's (S&P) Credit Rating | Credit ratings are opinions about credit risk. Standard & Poor's ratings express the agency's opinion about the ability and willingness of an issuer, such as a corporation or state or city government, to meet its financial obligations in full and on time, expressed by a letter-grade rating symbol. |
| Intergenerational equity              | The fairness of the distribution of the costs and benefits of assets when they are utilised by different generations.  |

## FURTHER INFORMATION

Any enquiries about the Treasury Management Policy should be directed to Council's Manager Finance and Information Technology.

## IMPLEMENTATION

This policy will be implemented through training and guidelines for relevant Council staff. Tools and training will be provided to support staff to undertake effective treasury management relevant to their role.

The Treasury Management Policy will be available to public via Council's website and to staff via Council's record management system.

## REVIEW

The Treasury Management Policy will be reviewed every four years or sooner if required by legislation or organisational changes.

The officer responsible for the review of this policy is the Manager Finance and Information Technology.