

1 PURPOSE

To provide clear direction to management, staff and Council in relation to the treasury function including borrowings and investment of community funds, as a means of ensuring liquidity and mitigation of financial risks.

2 OBJECTIVE

To provide a decision framework that:

- Ensures there is sufficient working capital to support the operations and capital program requirements of the Council at all times;
- Invests funds surplus to working capital requirements within the parameters of this policy;
- Maximises Council's return on investment taking account of:
 - Available interest rates;
 - Available terms to maturity; and
 - Surplus funds available to invest.
- Maintains records and reports on current investments and borrowings and their performance;
- Minimises the risk of fraud and error through strong internal controls;
- Prudently obtains borrowings using reasonable care and diligence, to support capital program requirements;
- Minimises the cost of borrowings;
- Identifies and manages relative financial risk for all investments and borrowings, in accordance with the Risk Management Policy and Framework and the resulting risk appetite.

3 SCOPE

The scope of this policy applies to the:

- Management of the treasury function for the Council;
- Investment of funds surplus to the Council's working capital requirements; and
- Borrowing of funds to support capital projects.

The scope of the policy does not apply to other investments as specified in the *Local Government Act 1993*, Section 21 (1) Enterprise powers, although, the availability of funds to invest in these activities will be determined in accordance with this policy.

4 DEFINITIONS

Liquidity refers to the ability of the Council to meet their financial obligations when they fall due.

Intergenerational Equity is a term used for linking the payment for an asset (via debt repayments) to successive populations who receive the benefit of the asset over its useful life.

Treasury refers to those activities that are related to funding of Council operations, such as cash flow, budgeting, borrowings and investments.

Working Capital refers to the amount of funds available to meet financial obligations when they fall due.

5 POLICY STATEMENTS

5.1 Treasury Management

Treasury management ensures that the Council has enough funds available at any point in time to meet its obligations and deliver its services to the community and undertake its capital program.

Treasury management involves the raising of funds (cash inflows) through revenue and borrowings and the spending of funds (cash outflows) on expenditure and investments.

Risk management is an important aspect of treasury management to ensure that objectives within this policy are able to be achieved.

Council will target a cash buffer to the equivalent of 3 – 6 months, based on the cash expenses cover ratio in line with the Tasmanian Audit Office benchmark for adequate cash cover. These funds will be kept between the working capital fund, at call funds and term deposit investments. Sufficient funding will be available in working capital and at call funds (being immediately available for use) to allow Council to undertake its operations and meets its obligations. The maturity timing of term deposit investments will match predicted cash flow requirements.

Borrowings are not a form of revenue and do not replace the need for Council to generate sufficient operating revenue to service its operating requirements. Council will not borrow funds to finance operating activities, non-capital projects or recurrent expenditure unless there are genuine and extenuating circumstances.

5.2 Investment Strategy

Council receives significant funds early in the financial year, mainly through rate revenue. Council invests funds surplus to its working capital requirements in accordance with this policy to generate a return on these funds until they are required for use.

The investment strategy is developed as part of routine annual planning processes including the Financial Management Strategy, Strategic Asset Management Plan, Annual Plan and Budget Estimates and Cash Flow Forecasts. The quality of the investment plan and maximisation of return are dependent on the quality of information and assumptions in these planning documents.

The maximum term of investments is 12 months (to match revenue and expenditure cycles within the financial year) unless genuine extenuating circumstances warrant a longer investment timeframe. Proposed investment for a period longer than 12 months are outside the intent of this policy, and will require a resolution of the Council.

Council's risk appetite requires that investments must only be made with Authorised Deposit taking Institutions (ADIs) regulated by the Australian Prudential Regulation Authority, in products where the underlying assets are cash (refer to <https://www.apra.gov.au/register-of-authorised-deposit-taking-institutions>). Preference is given to term deposit investment products.

Council will undertake a request for quotation process with ADIs, as part of its investment strategy, to determine which products deliver the best return, balancing risk and other criteria contained within this policy. A minimum of 3 quotes will be sought. The request for quotation process applies to investments that are new and rollovers.

Borrowing for investment and investing in speculative products is prohibited. Speculative products include derivatives, future, options, swaps and forward contracts.

The Council, may choose to use an external advisor to provide investment advice or provide investment management services. A request for quotation process, seeking at least 3 quotes must be used in these situations.

The advisor must possess all necessary licenses and qualifications to perform their duties in a professional way with due care, diligence and skill. The external advisor must disclose any conflicts of interest (for management in accordance with relevant policy) and must not receive commissions or benefits from their investment advice.

Any external advisor engagement will accord with this policy, contain details of how the advisor may be terminated, contain performance and review requirements and be undertaken on a full fee for service basis to ensure transparency.

The Council's approved investment portfolio consists of:

Fund Type	Purpose of Funds	Investment type	Benchmark	Institution
Working Capital Fund	To pay for daily obligations of Council and receipt funds	Cash	Returns on these accounts vary depending on market interest rates	(A1+) Bank
At Call Funds	Complement working capital fund while generating some return on funds	At Call Funds		(A1+) Bank
Investment Funds	Surplus funds invested to generate a return	Term Deposits	Average return compared to Budgeted target based on key market information (90 Day Bank Bill swap rate, CBA interest rate forecasts and RBA retail deposit and investment rates data sets)	Authorised Deposit Taking institution (ADI) with a credit rating allowed within the credit risk framework

Council will invest according to the stated objectives in this policy and in line with the following credit risk framework.

Short term Rating (Standard & Poor's)	Maximum weighted percentage of portfolio	Maximum percentage with any one institution
A1+	100%	100%
A1	80%	50%
A2	50%	20%
Rating definitions A1+ Extremely strong capacity to pay A1 Strong capacity to pay A2 Satisfactory capacity to pay – more susceptibility to adverse effects of changes in economic conditions than A1 or A1+		

This framework applies at the time of investment of funds at the start of each financial year. It does not apply throughout the year as funds reach maturity and are redeemed, as the portfolio mix will change.

Council has procedures in place to ensure that electronic funds transfers are made securely, minimising the risk of error and fraud.

5.3 Borrowing Strategy

The Council determines, where appropriate, whether funds will be borrowed in accordance with this policy. This decision cannot be delegated, though it is expected officers will provide qualified advice to Council to inform this decision.

From time to time, the Council may borrow funds to support significant capital projects that would otherwise be unable to be undertaken. These needs are determined based upon the strategic direction of the Council and evidence based needs. Where borrowings are intended they are to form the basis of the annual planning processes to ensure the impacts can be fully considered and are viable from an inter-generational perspective.

Funds must not be borrowed to finance operating activities, non-capital projects or recurrent expenditure of council unless there are genuine and pressing extenuating circumstances.

The term of borrowing must not exceed the expected economic life of the asset (where relevant), with an upper limit of 15 years.

Borrowings must be repaid within the term of the loan. Loans must be considered within the long term financial planning and annual budgeting process to ensure repayments can be met.

Section 80 of the *Local Government Act 1993*, limits the borrowing of additional money for any purpose, if the annual payments required to service the total borrowings would exceed 30% of its revenue base of the preceding financial year (excluding grants for specific purposes).

5.4 Delegation of Authority for Investments

Authority for implementation of the Investment Policy is delegated to the General Manager in accordance with Section 75 of the *Local Government Act 1993*. The General Manager may delegate the authority to manage investments to appropriately qualified senior staff members. Officers with a delegated authority to manage investments are required to acknowledge that they have received a copy of this policy and understand their obligations.

5.5 Risk Management

The Council's risk appetite for financial matters including treasury management is 'minimal' indicating a preference for options that avoid risk or have low inherent risk (uncertainty).

For investments this risk appetite will mean that expected investment returns will be low, due to the positive correlation between risk and return i.e. low risk equals low return and vice versa. Keeping public funds secure is the primary goal.

The below table details identified risks associated with treasury management, evaluates the likelihood and consequence of these risks, determines the assessed risk level and indicates the current controls in place.

Risk Description	Likelihood	Consequences	Assessed Risk Level	Risk Treatment / Controls
Liquidity risk i.e. Insufficient funds when required for operations and capital program	Unlikely	Moderate / Major	Medium – Acceptable - Planned Actions required	Mitigate risk through planning documents FMS, AMS and the Cash Flow Forecast that allow reasonable prediction of requirements to ensure adequate funds available through treasury management processes
Financial loss due to fraud or error	Unlikely	Moderate / Major	Medium – Acceptable - Planned Actions required	Mitigate risk through fraud control plan, data checks and notifications and organisation control structure
Opportunity loss / additional costs from investment / borrowing choice i.e. a better choice is not identified when it could have been	Possible	Minor	Medium – Acceptable - Planned Actions required	Mitigate risk through expression of interest process to select provider from a broad range (may not be all providers, but will be a representative sample)
Interest rate risk i.e. losses / gains from changes in rates, which may be material due to amount invested / borrowed	Possible	Moderate	High – Unacceptable Prioritised Action required	Use of fixed interest rate products for investments / borrowing. Where variable interest rate products are used, stress testing scenarios will be conducted to determine affordability and sustainability
Credit risk i.e. risk of default on loan repayments	Unlikely	Moderate / Major	Medium – Acceptable - Planned Actions required	Mitigate risk through planning documents FMS, AMS and the Cash Flow Forecast that allow reasonable prediction of requirements to ensure adequate funds available through treasury management processes for loan repayments

Risk Description	Likelihood	Consequences	Assessed Risk Level	Risk Treatment / Controls
Counterparty risk i.e. funds by party comply with limits within this policy	Possible	Insignificant as counter party risk is unlikely to have a dollar impact, rather policy non compliance	Low – Acceptable - Action by routine procedure	A schedule of all investments and borrowings is kept where limits by counterparty type and credit rating are recorded and monitored. It should be noted that limits are observed at time of investment and may vary as funds are redeemed
Reinvestment risk i.e. that terms of investment or borrowing will be different depending on when decision is made (gains and losses) which may be material due to amount invested / borrowed. This usually relates to delays in decision making.	Possible	Moderate / Major	High – Unacceptable Prioritised Action required	Investments of cash are made for specified terms with automated redemption of funds as default. Terms are matched to surplus cash flow availability. Flexibility is maintained through maintaining a cash buffer based on 3 – 6 months cover in cash expense cover ratio
Treasury operational risk i.e. that treasury processes don't operate as intended and on time.	Possible	Moderate / Major	High – Unacceptable Prioritised Action required	A list of authorised deposit taking institutions will be maintained with their credit rating. A list of all bank accounts is maintained and managed by Corporate Finance. A schedule of all investments and borrowing is maintained and reported on. Payments are made and funds redeemed according to the schedule

5.6 Performance Measurement and Reporting

An investment register must be maintained with all movements, which will include:

- List all investments in Council's investment portfolio;
- Current rate of return on individual investments;
- Credit Rating of Institution
- Percentage of total portfolio allocation with each institution
- Maturity dates
- Weighted average rate of return for the portfolio

Reporting on investments and borrowings will be tabled at Council meetings on a quarterly basis.

The cash expense cover ratio is calculated as the total unrestricted cash divided by the total cash payments for operating (suppliers, employees) and finance activities from the cash flow statement.

6 LEGISLATION

Part 8, Division 1 and 2 of the *Local Government Act 1993* (the Act) deals with investment and borrowings. The Act does not mandate the need for a Council to adopt a Treasury Policy.

Section 75 of the Act permits funds to be invested in any manner in which a trustee is authorised by law to invest or in any investment the treasurer approves. The Council's Delegation Register specifies who has the authority of the Council to invest funds under this policy.

Sections 78 and 80 of the Act need to be considered with respect to any borrowing activity.

7 RELATED DOCUMENTS

Financial Management Strategy CD-CCS-FIN-001
Annual Plan and Budget Estimates
Delegations to the General Manager from Council REG-CCS-CG-100

8 OTHER REFERENCES

Australian Accounting Standards

Policy Endorsement	
Responsibility:	It is the responsibility of the General Manager to ensure Council's compliance with this policy. It is the responsibility of the Director Corporate and Commercial Services to administer and review this policy as required. It is the responsibility of the Corporate Governance Unit to maintain this policy within the Corporate Document Framework.
Minute Reference:	AO032-23
Council Meeting Date:	28 February 2023
Strategic Plan Reference:	Strategy 7.4.2 Demonstrate financial accountability and ensure strong internal controls underpin performance. Strategy 7.1.1 Formulate policy that is equitable, inclusive and responsive to current needs, and ensure decision-making is informed and accountable.
Audit Panel Review:	This policy was reviewed by the Audit Panel on 8 February 2023.
Previous Policies Replaced:	This policy replaces the previous Treasury Management Policy version 5.0 dated 25 January 2022 (Item AO012-22, 25 January 2022).
Date of Commencement:	1 March 2023
Publication of policy:	Members of the public may inspect this policy at the City Offices, or access it on Council's website (www.burnie.net)