



MITCHAM

TREASURY MANAGEMENT POLICY

Adopted by Council 14 February 2023

public policy

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MITCHAM

1. PREAMBLE

The Treasury Management Policy provides clear direction to management, staff and Council in relation to the treasury function. The policy sets the principles and criteria with regard to Council's treasury (cash) management in the context of the Annual Budget, Long Term Financial Plan and associated projected and actual cash receipts and outlays. It outlines how required borrowings will be raised, when and how reserves are created and maintained and how cash and investments will be managed to fund Council operations.

2. PURPOSE

This Treasury Management Policy establishes a decision framework to ensure that:

- Funds are available as required to support approved outlays;
- Interest and other risks (e.g. liquidity and investment credit risks) are acknowledged and responsibly managed; and
- The net interest costs associated with borrowing and investing are reasonably likely to be minimised over the longer term.

3. SCOPE

This policy applies to all financial assets / liabilities and reserves, including finance leases and bank overdrafts except for the following specific exclusions:

- Creditors and Provisions;
- Bank Guarantees;
- Loans made to community groups where the predominant purpose of the loan is community benefit; and
- Asset Revaluation Reserve.

4. DEFINITIONS

Bank Guarantee

A promise made by a bank to provide payment to Council in the event of default. These are usually employed by Council to provide security over works related to new developments within the area.

Borrowings

An amount of money or monies owed by Council to a lender for which the Council agrees to pay the lender interest.

Cash Advance

A loan where principal amounts can be repaid at any time and interest is only payable on the amounts of principal outstanding.

Credit Foncier Loan

A loan that is structured with regular periodical repayments comprising of principal and interest.

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 services.

Net Financial Liabilities

Is a financial ratio that equals total liabilities less financial assets, where financial assets for this purpose include cash, investments, receivables and prepayments

but excludes equity held in a Council subsidiary, inventories and assets held for sale.

Reserve

Funds set aside from accumulated surplus earnings for anticipated specific future liabilities or payments where;

- A reserve is required under legislation; or
- Council has raised a separate rate for a specific purpose.

5. PRINCIPLES

5.1. Investments

Any 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 in accordance with this policy and Sections 47, 139 and 140 of the *Local Government Act 1999*

5.2. Reserves

Reserves in a strictly financial sense are simply an allocation of accumulated surplus. In general, based on the principle of intergenerational equity, Council does not set aside funds for future purposes except where:

- A reserve is required under legislation; or
- Council has raised a separate rate for a specific purpose.

5.3. Borrowings

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. Undertaking borrowings gives rise to both an asset (the cash it provides) and a liability (the obligation to repay the money borrowed)

5.4. Authority to Borrow

Under Section 44 of the Local Government Act 1999, Council cannot delegate the power to borrow money.

5.5. Risk Profile

Council will have a mix of fixed and variable rate borrowings to provide a combination of security and flexibility whilst minimising exposure to interest rate risk.

5.6. Quotes

Council will utilise the Local Government Finance Authority as its primary supplier when undertaking new borrowings or investing surplus cash. The Local Government Finance Authority provides significant support to the industry and applies bonus return payments to councils from its profits.

6. POLICY STATEMENT

6.1. Investments

The balance of funds held in any operating bank account shall be kept at a level that is no greater than is required to meet immediate working capital requirements.

Investments will be made in a prudent manner having regard for the prevailing economic climate, projected interest rate movements and future cash requirements.

Cash investments are to be limited to:

- Deposits with the Local Government Finance Authority
- Bank interest bearing deposits
- State / Commonwealth Government Bonds
- Bank accepted / endorsed bank bills
- Australian Financial Institution

Unless it is financially advantageous to do so, the maturity date for fixed term investments should not exceed a point in time where the funds could otherwise be applied cost effectively to either defer the need to raise new borrowings or reduce the level of Council's existing borrowings.

All investments are to be made exercising care, diligence and skill in the consideration of:

- The purpose of the investment;
- The likely income return and timing of income return;
- The period in which the investment is likely to be required;
- The cost of making and maintaining the investment;
- An assessment / outlook on future interest rate movements;
- The liquidity and marketability of the proposed investment;
- An assessment of future cash flow requirements; and
- The Government guarantee on the investment.

6.2. Reserves

If Council establishes a reserve under either of the above two criteria, Council does not cash back those reserves but instead utilises such funds to temporarily reduce or defer its borrowings that would otherwise be required. When funds are required in relation to reserves that are not cash backed, Council utilises surplus cash in the first instance and then draws down on borrowings as the need arises.

6.3. Borrowings

Borrowings are a useful and valid mechanism to:

- Manage timing differences between operating cash inflows and outflows; or
- Manage timing differences between year by year renewal capital expenditure and the long term average renewal requirements of the Asset Management Plan, which under Council's Financial Sustainability Policy are funded by operating revenue such as rates; or
- Establish new long term assets that will service and be used / enjoyed by both current and future ratepayers.

Council manages its funds holistically within the constraints of its overall financial strategies and targets outlined in the Long Term Financial Plan and Council's Financial Sustainability Policy. Having consideration for the Financial Sustainability Policy, Council will only borrow funds when it requires cash as a result of timing differences between cash inflows and outflows.

Council may borrow through any market mechanism under Section 134 and 135 of the Local Government Act 1999 but will not directly issue its own debt.

All borrowings are to be made exercising care, diligence and skill in the consideration of:

- Current risk profile;
- Current economic factors;
- The period over which the funds are likely to be required;
- Expected short and long term view of interest rate trends;
- Council's overall debt maturity profile and mix;
- Cost of funding;
- Cost differentials between fixed and variable facilities;
- Long term capacity for repayment of loans;
- The reason behind Council's cash shortfall; and
- The cost of making and maintaining the borrowing.

6.4. Interest Rate Risk Exposure

Council has set range limits for both fixed and variable interest rate borrowings in order to minimise net interest costs on average over the longer term and at the same time manage interest rate movement risks within acceptable limits.

To ensure an adequate mix of interest rate exposures, Council will restructure its portfolio of borrowings, as old borrowings mature and new ones are raised, to progressively achieve and thereafter maintain on average in any year:

- 75% of its gross debt in the form of fixed interest rate borrowings.
- 25% of its gross debt in the form of variable interest rate borrowings

In order to spread its exposure to interest rate movements, Council will aim to have a variety of maturity dates on its fixed interest rate borrowings over the available maturity spectrum. Council will ensure that no more than 25% of its fixed interest rate borrowings mature in any year.

6.5. Authority to Borrow

Council approves an annual borrowing limit each year as part of the annual budget and delegates to the Mayor and Chief Executive Officer the power to execute documentation in relation to borrowings for that financial year, up to and including the budgeted borrowing limit. A new Council approval process is required for any borrowings above that approved by Council as part of the original budget or subsequent budget revisions in any one year.

Budgeted borrowings that are not taken out within the financial year for which they are approved are not carried over into the following year and the delegated authority to borrow those funds lapses. A new budgeted borrowings limit is then established as part of the following year's budget.

Council does not place a physical monetary limit on the level of borrowings it may hold, however, places an upper limit through its financial indicator constraints contained within the Financial Sustainability Policy.

6.6. Risk Profile

Council recognises the importance of balancing risk management and cost and in an effort to maximise this balance will utilise various borrowing mechanisms including:

- Credit foncier loans;
- Variable interest borrowings; and
- Short term cash advance facilities.

Council recognises that there is usually a margin between borrowing and investment rates and that savings can be made by structuring its borrowings portfolio so cash inflows that are surplus to short to medium term requirements can be applied in the first instance to reduce the level of borrowings that would otherwise be necessary. This is more readily achievable with variable interest rate borrowings and cash advance facilities and for this reason Council will, where appropriate, incorporate a portion of variable interest borrowings in its loan portfolio.

There is no limit on the level of borrowing to which Council can commit from any one lender subject to the financial limits contained within the Financial Sustainability Policy and any lender constraints. There is also no limit imposed as to the ratio between fixed and variable interest rates in relation to Council's overall borrowings portfolio; however, the criteria listed above inform each decision made in relation to the balance between variable and fixed interest rates.

Council will only borrow or invest with Australian based entities (this does not preclude foreign ownership) and will only borrow or invest in Australian dollars.

6.7. Quotes

From time to time, at intervals of no more than every two years, at least two competitive quotes will be sourced, compared and documented against the Local Government Finance Authority to ensure they continue to deliver the value to the community (after taking into account all relevant factors, including bonus amounts paid and bonus discounts received).

All deliberations and quotes are to be documented and filed.

6.8. Maintain Sufficient Funds to Meet Liabilities

In order to ensure liabilities are met as and when they fall due and to maintain business continuity, Administration shall maintain at least \$4,000,000 in cash advance facilities. This limit shall be considered when preparing the Annual Business Plan, Budget Reviews and the Long Term Financial Plan.

Administration will

- monitor the level of cash equivalents and the overdraft facility on a daily basis, and

- prepare a monthly cash flow forecast and present to the Manager, Finance and Rates.

6.9. Reporting

Executive Reporting

The Executive Leadership Group shall receive information regarding treasury management performance relative to the criteria specified in this policy within three weeks of calendar month end.

This will highlight:

- The amount of each Council borrowing and investment (including cash equivalents), its interest rate, maturity date and any changes in holdings.

Council Reporting

Council shall receive at the end of every financial year, via the Audit Committee, a specific report regarding treasury management performance relative to the criteria specified in this policy.

This report will highlight:

- Any breaches of the funds limits noted in Item 6.7;
- The amount of each Council borrowing and investment, its interest rate, maturity date and any changes in holdings since the previous report; and
- The proportion of fixed interest rate and variable interest rate borrowings at the end of the reporting period, an estimate of the average of these proportions across the period.
- The performance of Council's treasury portfolio over the period compared to the official RBA cash rate.

7. POLICY REVIEW

Council is committed to ensuring this policy and supporting framework remains current and effective.

This Policy will be subject to review every four (4) years or sooner at the discretion of the relevant General Manager.

The CEO has delegated authority to endorse any amendments to the Policy that do not vary the intent of the policy.

8. VERSION HISTORY

VERSION	AUTHOR(S) POSITION	CHANGES	DATE
1.0	Finance		December 2013
2.0	Manager, Finance and Rates		July 2015
2.1	Governance Officer	Refer to Full Council Resolution	12 November 2019

		12 November 2019 Item 9.4	
3.0	Manager, Finance and Rates	Policy Renewal – Refer to Full Council Resolution 14 February 2023 Item 9.7	February 2023

9. DOCUMENT CONTROL

Responsible Department	Corporate Services and Innovation (Finance)		
Delegations Contained within Policy	YES		
Classification	Financial Management		
Applicable legislation	Local Government Act 1999		
Related Policies & Corporate Documents			
Additional references			
Endorsed by Council	14/02/2023	Item No:	9.7
Effective Date	14/02/2023	Next Review Date:	14/02/2027