



TREASURY MANAGEMENT POLICY

Policy No.	C24	Adoption Date:	Council Meeting 18 August 2021
Revision Date:	August 2025		
Directorate:	Performance & Innovation	Department:	Finance & Strategy
GOOD GOVERNANCE FRAMEWORK – OVERARCHING PRINCIPLES			
Supporting Pillar:	Pillar 1 - Direction & Leadership Pillar 4 - Structure, Systems & Policies		
Link to Pillar:	This Policy strengthens Council's governance framework by establishing financial management principles relating to the investment of council funds that demonstrate the basis of how decisions are made.		

1. PURPOSE

The purpose of the *Treasury Management Policy (C24)* (the Policy) is to ensure the responsible and strategic management of Council's treasury activities, specifically investing and borrowings. This Policy has been developed to support the Council to comply with its good governance and conduct obligations in line with various legislation, principally the *Local Government Act 2020 (the Act)*.

- 1.1. This Policy ensures that Council's investments are actively managed within the framework of the *Local Government Act 2020 (the Act)*, and provide maximum returns for ratepayers with consideration of an acceptable risk.
- 1.2. This Policy outlines the situations in which Council may use borrowings as a funding source. The policy allows Council the flexibility to respond to funding requirements, whilst minimising risk, considering Council's financial management principles. The policy outlines where borrowings may be suitable as a funding mechanism, how Council will source new borrowings, and how borrowings and repayments will be managed.
- 1.3. This Policy sets out Council's policy and risk assessment approach for management of borrowings, and applies to all loans undertaken on behalf of South Gippsland Shire Council and any loan refinancing activities. It does not apply to any short-term overdraft facilities linked to Council's transactional bank accounts.



1.4. This Policy sets out Council's policy and risk assessment approach for the management of investments and applies to all funds invested on behalf of Council in line with s.103 of *the Act*.

2. SCOPE

The scope of this Policy applies to Council and staff when making decisions with financial implications.

This Policy outlines how Council meets its responsibility of sound financial management in order to remain financially sustainable and comply with statutory obligations.

3. POLICY PRINCIPLES

Investment of Council funds – Local Government Act 2020, Section 103

Pursuant to s.103 of the Act:

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 [Authorised deposit-taking Institution] 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.*

Delegation of Authority

3.1. Section 47 of the Act enables the Chief Executive Officer (CEO) to delegate by instrument of delegation the power, duty or function of to a member of Council staff.

Investment Management Principles

- 3.2. Maximise the return on funds, taking into account the requirement to make payments out of investment funds in a timely manner. Adequate funds should be available in the current account to meet daily cash flow requirements.
- 3.3. Require the best possible investment rate at the time of investment to be used subject to limits outlined in **Table 1**.
- 3.4. Require all quoted interest rates and actions taken to be recorded.



- 3.5. Require that the amount invested with any one financial institution not exceed the limits as outlined in **Table 1**.
- 3.6. Require that where the credit rating of a financial institution in which Council has funds invested is downgraded so that they no longer fall within the Council's policy guidelines, they must be divested as soon as practicable or at maturity.
- 3.7. Recognise that Council has an ongoing arrangement with Bendigo and Adelaide Bank to invest up to 35 per cent of investment holdings in acknowledgement of the role that community banks provide to their local communities providing that the rates on the day of investing are within ten basis points of the best rate obtained on that day and the bank continues to support the community.
- 3.8. Require sufficient liquidity is available to meet all reasonably anticipated cash flow requirements, as and when they fall due, without incurring significant costs due to the unanticipated sale of an investment.

Table 1: Investment Limits

Standard & Poor's (S&P)	Max. % of Total Funds with one financial institution	Max. % of Total Investments
Long Term Rating		
AAA to AA-	50%	100%
A+ to A-	40%	90%
BBB+ to BBB-	20%*	80%

* *A 35% limit will apply to Bendigo and Adelaide Bank, whilst it retains its current Standard & Poor's (S&P) Rating of A2/A-BBB+, noting the Council commitment to support the Community Bank.*

^ *For the purpose of this Policy, "Major" is currently defined as the Approved Deposit Institutions (ADI) deposits or senior guaranteed principal and interest ADI securities issued by the major Australian banking groups:*

- *Australia and New Zealand Banking Group Limited (ANZ)*
- *Commonwealth Bank of Australia (CBA)*
- *National Australia Bank Limited (NAB)*
- *Westpac Banking Corporation (WBC)*

including ADI subsidiaries whether or not explicitly guaranteed, and brands (such as St George, BankWest).

- 3.9. Council may ratify an alternative definition from time to time. Standard & Poor's ratings attributed to each individual institution will be used to determine maximum holdings.



Prohibited Investments

3.10. This Policy prohibits any investment carried out for speculative purposes including:

- 3.10.1. Derivative based instruments;
- 3.10.2. Principal only investments or securities that provide potentially nil or negative cash flow; and
- 3.10.3. Standalone securities that have underlying futures, options, forwards contracts and swaps of any kind.

3.11. This Policy prohibits the use of leveraging (borrowing to invest) of an investment.

Investment Reporting and Policy Review

3.12. The following reports will be produced and may impact Policy review:

- 3.12.1. A confidential report will be provided to Council on an annual basis as at the end of the financial year. The report will detail the investment portfolio, Counterparty Compliance, Credit Quality Compliance, Portfolio Comparison, Trades for Period, Interest Received in Period and Historical Portfolio Balances as at 30 June each year.
- 3.12.2. A report to the *Executive Leadership Team* (ELT) will be provided on a quarterly basis. The report will detail the investment portfolio, Counterparty Compliance, Credit Quality Compliance, Portfolio Comparison, Trades in Period, Interest Received in Period and Historical Portfolio Balances.
- 3.12.3. Documentary evidence must be held for each investment and details thereof maintained in an Investment Register.
- 3.12.4. Confirmation must be obtained from the financial institutions confirming the amounts of investments held on the Council's behalf as at 30 June each year and reconciled to the Investment Register.
- 3.12.5. Any economic changes that may significantly impact the *Standard & Poor's* (S&P) ratings of ADI's as described in **Table 1** of this Policy will also require a review to ensure that the risk appetite remains appropriate in the changed economic environment.

Borrowing Funds – Legislated Requirements

3.13. Power to borrow money:

- Section 144 of the *Local Government Act 1989*
- Section 145 of the *Local Government Act 2020*

3.14. Borrowings must be included in the budget/revised budget:

- ~~Section 104 of the *Local Government Act 2020*~~



- Section 11(2) of the *Local Government Act 2020*
- *Local Government (Planning and Reporting) Regulations 2020*

Borrowing Purposes

- 3.15. Capital works projects that are of strategic significance that could otherwise not be funded in the timeframe that they are required; OR
- 3.16. To help fund Council's obligations to provide community assets under a Developer Contributions Plan; OR
- 3.17. To meet Council's obligations regarding any future Defined Benefits Superannuation calls, OR
- 3.18. To refinance Council's Loan Portfolio, if it would result in a net benefit to Council, considering the net present value of any savings achieved.

Inter-generational Equity Funding

- 3.19. Council shall consider equity between generations of ratepayers (inter-generational equity) whereby the mechanisms to fund specific capital expenditure consider the ratepayers who benefit from the expenditure and therefore, on a user pay basis, who should pay for the costs associated with such expenditure.
- 3.20. The above principle shall not be applied where it would be to the detriment of sound financial management.
- 3.21. Debt levels should be minimised to allow future councils the opportunity to borrow in future years for capital works arising in those future periods without being impeded by large borrowings by an earlier council.

Borrowing Principles

In addition to Council's financial principles outlined above, the following borrowing principles apply:

- 3.22. There must be capacity in Council's *Financial Plan* to fund debt servicing costs for every year of the loan.
- 3.23. Borrowings must not be used to fund operational deficits or asset renewal requirements.
- 3.24. New borrowings will only be undertaken to fund items that meet the objectives of the Council Plan.
- 3.25. New borrowings must be included in an adopted budget to meet legislative requirements.
- 3.26. New borrowings must be tied to a specific project, so that the community can clearly identify the purpose of the borrowings.
- 3.27. Loan drawdown should occur as late as possible to avoid unnecessary interest costs.



- 3.28. All loans will be sourced via invited tender, with at least four Australian Banks to be invitees, and consideration of both the *Local Government Funding Vehicle* and *Treasury Corporation* loans if available.
- 3.29. When assessing loan contracts, Council must consider the purpose of the loan and seek to balance interest costs, repayment obligations, and refinancing flexibility.
- 3.30. If Council were to enter an “interest-only” repayment schedule, an amount equivalent to principal repayments must be deposited to a cash reserve over the life of the loan to fund the principal repayment when it falls due.
- 3.31. The loan term must not exceed the useful life of the asset funded by the loan, unless related to the repayment of a *Defined Benefits Superannuation Call*.
- 3.32. The decision to repay borrowings early shall be a decision of Council against competing priorities for funds.
- 3.33. New borrowings are not to be undertaken if they lead to Council entering the “high-risk” category in the following financial indicators:

Table 1: Risk Assessment Matrix

Indicator	Measure	Low Risk	Medium Risk	High Risk
Loans and Borrowings Compared to rates	Interest bearing loans and borrowings / rate revenue			> 60%
Indebtedness	Non-Current Liabilities / Own Source Revenue	< 40%	40% – 60%	> 60%

Loan Portfolio Management

- 3.34. The *Chief Executive Officer* is authorised to manage Council’s Loan Portfolio. This responsibility includes:
- 3.34.1. Managing loan repayments and schedules;
 - 3.34.2. Preparing the budget and financial plan to include borrowings and repayments, and
 - 3.34.3. Administering Tender processes for new loans.
- 3.35. Council’s bank signatories are authorised to complete bank transfers to meet scheduled repayments.

Reporting Borrowings to Council

- 3.36. Council’s borrowings are reported to Council in the quarterly finance report, Annual Report, and budget documents. Any tender activities for new borrowings will be approved by Council resolution before the tender process takes place.



4. RISK ASSESSMENT

This Policy mitigates Council's risks as described below:

4.1. Financial

- 4.1.1. Councils must implement the principles of sound financial management. This includes managing financial risks, pursuing spending and policies that are consistent with a reasonable degree of stability and are made with future generations in mind.

4.2. Risk Management

- 4.2.1. Surplus funds should firstly be invested with the community bank to a limit of 35 per cent of available cash, providing that the community bank rate is not more than ten basis points below the best available interest rate on the day of investment. The balance will then be invested at the best available interest rate within the constraints of **Table 1**.
- 4.2.2. To control the credit quality of the entire portfolio, surplus funds will only be invested in Approved Deposit taking Institutions (ADIs) approved by the *Australian Prudential Regulation Authority* (APRA) with a credit rating of at least A2 (short term) and BBB- (long term) as assessed by Standard and Poor's independent credit rating.

5. IMPLEMENTATION STATEMENT

5.1. Human Rights Charter

This Policy has considered the *Charter of Human Rights and Responsibilities Act 2006* in its development.

5.2. Gender Equality

This Policy has considered the *Gender Equality Act 2020* in its development.

5.3. Roles and Responsibilities

- 5.3.1. The *Manager Financial Strategy* is responsible for overseeing the application of this Policy and updates as required.

6. MONITORING, EVALUATION AND REVIEW

- 6.1. This Policy will be reviewed and adopted by Council on a four-year cycle.

7. REFERENCE DOCUMENTS

Legislative Provisions	Charter of Human Rights and Responsibilities Act 2006 Freedom of Information Act 1982 Gender Equity Act 2020 Local Government Act 1989 Local Government Act 2020 Local Government (Planning and Reporting) Regulations 2020
Council Supporting Documents	S7 Delegation – Chief Executive Officer to staff Financial Management Policy (C86)



8. DEFINITIONS

Community Bank	A bank that is set up by the community under the auspices of a major bank (eg. Bendigo Bank).
Speculative	A deal involving the taking of a higher risk in the hope of making an extraordinary gain.
Yield	Annual rate of return on an investment.
Investment Portfolio	The combination of all investments held by Council at any one time.
Loan Portfolio	The combination of all interest-bearing Loans taken out by Council.
Capital Project	An investment project requiring relatively large sums to acquire, construct, or upgrade a community asset.
Developer Contributions Plan	An agreement between Council and developers to co-fund community assets to new subdivisions covered by the plan.
Defined Benefits Superannuation	The Defined Benefit Plan for local government employees was a compulsory scheme set up by the Victorian Government in 1982 and was closed in 1993. Unlike other exempt public sector schemes, it must be fully funded to pay the benefits owed to members now and into the future. Council has obligations to fund any shortfalls in the fund. A cash reserve is being built over time to meet future commitments. Additional funds may be required to meet a future call if it exceeds the funds held in cash reserves.
Debt Servicing Costs	Annual Loan repayment costs (including principal and interest)

9. REVISION HISTORY

Version	Approved By	Approval Date	Sections Modified	CM9 Ref#
1.0	Council	22 May 2013	Revised Policy	D8201014
1.1	Council	24 May 2017	Revised Policy	D9243217
1.2	Council	25 March 2020	Revised Policy: Table 1, Reporting & Review	D2979921
2.0	Council	18 August 2021	New Policy: Formally called Investment of Council Funds Policy (C24)	D7046921