



BOROONDARA
City of Harmony

Treasury Policy

15 November 2010



Responsible Directorate: Corporate Services
Authorised by: Council
Date of adoption: 15/11/2010
Review date: 5 Years
Revocation/sunset date: Nil
Policy type: Council

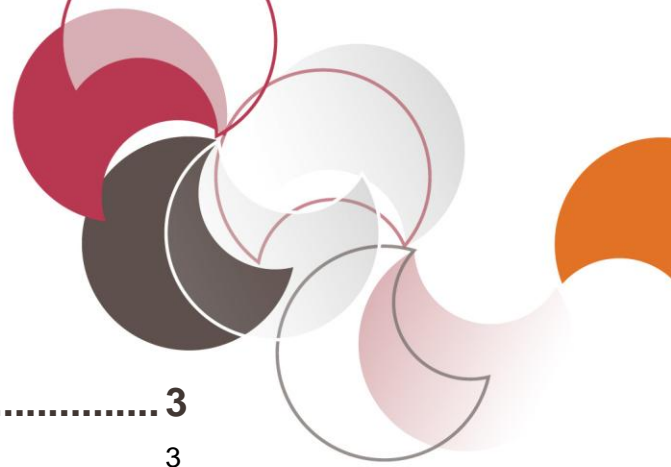


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1. Introduction

1.1. Purpose

The purpose of the Treasury Policy is to establish Council policy in relation to:

- (a) Conduct of Council's operating bank account;
- (b) Conduct of sundry other bank accounts maintained by Council;
- (c) Monitoring and reporting Council's cash flow requirements;
- (d) Determination, placement and monitoring of investment funds; and
- (e) Determination of borrowing requirements, processes of obtaining loan funds and monitoring of borrowing interest rates.

1.2. Scope

The Treasury Policy applies to all bank accounts, investment funds and loan funds controlled by Council and administered through the Financial Services department, which includes:

- (a) Conduct of Council's operating bank account;
- (b) Conduct of sundry other bank accounts maintained by Council;
- (c) Monitoring and reporting Council's Cash Flow requirements;
- (d) Determination, placement and monitoring of investment funds; and
- (e) Determination of borrowing requirements and process of obtaining loan funds.

2. Background

The Treasury Policy serves to provide security and stewardship over Council's investment holdings.

2.1. Methodology

This policy is to ensure that fair and responsible financial decisions are conducted in accordance with the requirements of the Local Government Act 1989 and sound investment and borrowing practices.

2.2. Context

To ensure Council follows a documented procedures in dealing with financial reporting, the investment of funds and procuring of moneys from financial institutions in accordance with budgetary and statutory requirements.

2.3. Consultation

In determining the policy any investment or lending institution utilised by Council must fall into strict financial categories that ensure that all Council funds are ethically and responsibly managed.


2.4. Corporate framework

This policy supports Council's Mission and Vision of maintaining a strong financial base for the Boroondara Community.

3. Policy statement

3.1. Conduct of Council's operating bank account

- (a) Bank reconciliations of the operating account shall be prepared at least weekly by the Treasury Officer. Reconciliations shall be reviewed by the Coordinator Revenue & Property.

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- (b) Signatories to Council's operating account shall be any two of Director Corporate Services, Manager Financial Services, Manager People, Culture & Development, Coordinator Revenue & Property, Coordinator Financial Accounting and Coordinator Purchasing & Procurement. Wherever practical, cheques will be signed by a Manager and a Team Leader.

3.2. Accountability of cheque signatories

- (a) Cheque signatories have a responsibility to ensure that their signature is only affixed to valid Council payments. Signatories should ensure they check all supporting documentation, that they establish the validity of the payment and that they are comfortable with the bona fides of the payment before they sign;
- (b) The Treasury Officer shall be responsible for maintaining the register of cheque signatories and shall update the listing immediately after position changes;
- (c) Council's operating account will be maintained in accordance with the contract awarded to the successful tenderer for Council's banking relationship;
- (d) Any direct debit payment through the operating account shall only be made in accordance with Council's Manual of Delegations;
- (e) Council shall treat any cheque outstanding for 12 months or more as a "stale" cheque.

3.3. Conduct of sundry other bank accounts maintained by Council

- (a) The need to maintain a sundry bank account must be clearly demonstrated to the satisfaction of the Manager Financial Services. Council's preference is to have one operating bank account and use general ledger accounting to account for special purpose funds;
- (b) As it is envisaged that very few transactions will pass through special purpose accounts, bank reconciliations will be performed monthly by the Treasury Officer and will be reviewed by the Coordinator Revenue & Property and Manager Financial Services;
- (c) Signatories to Council's operating account shall be any two of Director Corporate Services, Manager Financial Services, Manager People, Culture and Development, Coordinator Revenue & Property, Coordinator Financial Accounting and Coordinator Purchasing & Procurement. Wherever practical, cheques will be signed by a Manager and a Team Leader;
- (d) If the governing rules pertaining to the establishment of the special purpose account require another party (e.g. a Trustee) to be added as a signatory this shall be implemented by the Treasury Officer;
- (e) The Treasury Officer shall be responsible for maintaining the register of cheque signatories and shall update the listing immediately a position changes;
- (f) Council shall treat any cheque outstanding for 12 months or more as a "stale" cheque.

3.4. Monitoring and reporting Council's Cash Flow requirements

- (a) Each year as part of the Budget process a cash flow budget is prepared.



- (b) For management purposes, the Coordinator Revenue & Property will produce a monthly cashflow forecast to enable peaks and troughs to be quickly identified. This forecast will update each month to include actual balances;
- (c) Daily cash balances will be provided by the Treasury Officer to the Coordinator Revenue & Property and Manager-Financial Services;
- (d) Weekly meetings shall occur between the Coordinator Revenue & Property and Manager Financial Services to determine investment placements (expanded below in section 3.5).
- (e) Council's working capital and financial sustainability measures remain within the target range nominated by the Victorian Auditor-General. Currently, the Victorian Government's Borrowings Assessment Policy provides the basis for assessment of borrowing allocation. This policy contains numerous prudential limits including liquidity (working capital ratio) as follows:
 - Red: <110%
 - Amber : 110% to 120%
 - Green: >120%

Council's Financial Strategy Principles articulate that Council aims to maintain the 120% liquidity ratio.

3.5. Determination, placement and monitoring of investment funds

- (a) Council shall determine, place and monitor investment funds in accordance with the requirements of the Local Government Act 1989 and associated regulations;
- (b) In accordance with the Local Government (Long Service Leave) Regulations 1991 No 25 Sub-Reg (2) sufficient funds will be set aside to enable Council to meet the Long Service Leave entitlements of Council staff;
- (c) Council funds shall be invested in accordance with determinations issued by the Minister for Local Government pursuant to section 143(f) of the Local Government Act 1989;
- (d) Determination of available funds for investment shall occur daily. The investment template shall be updated daily and the Coordinator Revenue and Property and Manager Financial Services shall determine funds to be placed on investment;

Consideration of investment placements is predicated on the operating account maintaining a minimum credit balance of \$500,000 at all times;

- (e) In completing the investment template at least three quotes shall be obtained in order to maximise interest returns as well as offering the opportunity to spread Council's risk. Council will endeavour at all times to place investments with more than one institution so that a single institution holds no more than 30% of Council's investments. Furthermore, Council will endeavour at all times to ensure that investments are placed so that no more than 50% of the investment balance is invested with institutions bearing a credit rating equivalent to the lowest "A" long term rating on the Standard and Poors credit rating scale.

That Council approves an exception to the above policy conditions that provides for the investment placement of principal sums of \$50,000 per branch to a maximum of \$150,000 with each licensee/operating entity of a Community Bank branch operating in Boroondara (including any new Community Bank branches/licensee/operating entity that may open). This principle is restricted to Community Banks with a long term credit rating of "BBB" or greater.



- (f) It is acknowledged that there may be times when the level of funds is insufficient to justify placement with multiple institutions and that the LSL investment may be held as one investment with a single institution;
- (g) Any proposal to transfer funds to an investment account must be approved by the Manager Financial Services. The physical transfer of funds will require two authorised signatories.

3.6. Statements of Intent

- (1) Council aims to maximise investment returns whilst complying with relevant legislation and exercising prudent judgement to ensure the security of invested funds.
- (2) Council aims to achieve returns at least equal to the published UBS Warburg benchmark rate.
- (3) Council will maximise its investment holdings whilst at the same time ensuring funds are available as needed.
- (4) Council invests to generate income and to protect capital. Council will thus not invest in products of unit value nature where the value of the investment unit can potentially be less than the capital sum invested.
- (5) Council will not invest in speculative products categorised as "derivatives". This exclusion applies to products such as Collateralised Debt Obligations (CDOs) and Forward Rate Notes (FRNs)
- (6) Council will not purchase or trade bonds.
- (7) Any investment of a nature other than a fixed interest term deposit, will only be considered after independent, expert advice has been obtained. The advice must be independent and cannot be obtained from the same party promoting the investment.
- (8) Comprehensive performance reporting is prepared for the Director Corporate Services each month and summary reporting included in the Quarterly Performance Report presented to Council.
- (9) In selecting the institutions from which quotes shall be obtained, Council will comply with the above provisions of the Local Government Act as well as apply the following guidelines:
 - (a) Council shall not invest funds with any financial institution with a short term market rating of less than A-2.

Examples of short term investments include Commercial Bills, Term Deposits, Certificates of Deposit and 11am Deposits.

The current short term rating table issued by rating agency Standard and Poors is:

A-1 A short-term obligation rated 'A-1' is rated in the highest category by Standard & Poor's. The obligor's capacity to meet its financial commitment on the obligation is strong. Within this category, certain obligations are designated with a plus sign (+). This indicates that the obligor's capacity to meet its financial commitment on these obligations is extremely strong.



A-2 A short-term obligation rated 'A-2' is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher rating categories. However, the obligor's capacity to meet its financial commitment on the obligation is satisfactory.

A-3 A short-term obligation rated 'A-3' exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation.

- (b) Council shall not invest funds with any financial institution with a long term market rating of less than A-

The current long term rating table issued by rating agency Standard & Poors is:

AAA An obligation rated 'AAA' has the highest rating assigned by Standard & Poor's. The obligor's capacity to meet its financial commitment on the obligation is extremely strong.

AA An obligation rated 'AA' differs from the highest-rated obligations only to a small degree. The obligor's capacity to meet its financial commitment on the obligation is very strong.

A An obligation rated 'A' is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher-rated categories. However, the obligor's capacity to meet its financial commitment on the obligation is still strong.

- (c) A table disclosing details of Council's investments must be included in each Financial Services Monthly Report to the Director Corporate Services. Information to be disclosed shall include the balance on investment, the institution, the interest rate, the maturity date, the investment type and comparison of investment returns for the month to the benchmark published 90 day Bank Bill Swap Rate (BBSR).

3.7 Determination of borrowing requirements and process of obtaining loan funds

- Council shall at all times conduct its loan borrowings in accordance with the requirements of the Local Government Act 1989, in particular:
 1. Section 144 Power to Borrow.
 2. Section 145 Circumstances in which power to borrow may be exercised.
 3. Section 146 Budget or revised budget must include proposed borrowings.
 4. Section 147 Use of loan for different purpose.
 5. Section 148 Borrowings to be secured
 6. Section 149 Provisions with respect to securities.
 7. Section 150 Overdrafts.

Council shall only undertake new borrowings or restructure existing borrowings in accordance with the adopted Budget and the confirmation of borrowing intentions received from the Department of Infrastructure as agent for the Loan Council.

- Any approved new borrowings shall be placed for tender through Council's normal tender processes.
- Should cashflow circumstances dictate that an approved borrowing is not required, Council shall be informed of the variations to that year's budget.



4. Implementation and monitoring

4.1. Accountabilities

For all queries or feedback regarding this policy document, please contact the responsible officer below.

Contact	Contact number	Contact e-mail
Coordinator Revenue and Property Services	9278 4444	revenue@boroondara.vic.gov.au

The responsible officer coordinates the implementation, maintenance and review of this policy; ensuring stakeholders are aware of their accountabilities.

4.2. Financial Accountabilities

This policy is to ensure that fair and responsible financial decisions are conducted in accordance with the requirements of the Local Government Act 1989 and sound investment and borrowing practices.

5. References

5.1. Related documents

Current procedures are located at L:\Rates\Manuals\Financial Updates.

The relevant sections of the Local Government Act 1989 as detailed under 3.7 of this policy.

5.2. Definitions

Council	Indicates reference to the City of Boroondara as a geographical area and also refers to the entity which has the authority to make decisions on behalf of the Boroondara community.
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