

# Investment Policy

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## **I. PREAMBLE**

The purpose of Council's Investment Policy is to ensure that:

- Responsible Council officers invest surplus funds with approved financial institutions.
- Investment transactions are appropriately authorised and documented.
- Effective controls are in place to minimise investment risk.
- Funds are invested in accordance with legislative and Council requirements.
- Investment decisions consider multiple risk factors that mitigate Council's exposure to associated financial risk.
- The return on surplus funds is enhanced through the prudent investment of funds while sufficient liquidity is maintained to meet Council's day to day operational commitments.

## **2. SCOPE**

This policy applies to all Council staff involved in the investment of Council funds

## **3. POLICY STATEMENT**

This policy sets out the guidelines and principles to be followed by Council officers when investing funds with financial institutions. Council needs to take advantage of the revenue earning potential of its surplus funds while reducing exposure to financial risks and ensuring sufficient funds are available for operational purposes. Council also needs to conform to the legislative investment restrictions that apply to local government. The policy also sets out reporting requirements on Council's investment portfolio.

## **4. LEGISLATIVE REQUIREMENTS**

All investments must comply with Section 143 of the Local Government Act 1989 (LGA).

Investment Types (Permitted by S143 of the LGA)

- In Government securities of the Commonwealth
- In securities guaranteed by the Government of Victoria
- With an authorised deposit-taking institution
- With any financial institution guaranteed by the government of Victoria
- On deposit with an eligible money market dealer within the meaning of the Corporations Act

- 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 purposes of this section.

## 5. INVESTMENT OBJECTIVES

The Council's overall objective is to optimise investment returns by investing funds at the most advantageous rate of interest available at the time, for that investment type while achieving a balance between capital preservation and liquidity.

### 5.1 Preservation of capital

Investments must be placed in a manner that safeguards the investment portfolio. This includes managing credit and interest rate risk within defined thresholds and parameters.

In determining the institutions that Council will invest in, investments with institutions that have the following credit ratings (or equivalent) will be made, subject to the limits set out below:

Long-term Credit Rating		Short-term Credit Rating		Maximum % of funds with one institution	Maximum % of total investment	Maximum term
Moody's	Standard & Poors	Moody's	Standard & Poors			
Aaa to Aa3	AAA to AA-	P1	A-1+	60%	100%	2 Years
A1 to A2	A+ to A	P1/P2	A-1	20%	100%	2 Years
A3 to Baa1	A- to BBB+	P2	A-2	10%	80%	2 Years
Baa2 to Baa3	BBB to BBB-	P3	A-2/A-3	5%	10%	1 Year

- If a different level of rating is applied by one of the Rating Agencies, the lower of the ratings will be utilised by Council in assessing the rating of that financial institution for investment purposes.
- If any of Council's investments are with an institution whose credit rating has been downgraded such that they no longer fall within these ratings, they will be divested at maturity or as soon as practicable.
- If at any time Council's investment held with a single institution exceed maximum fund allocations due to changes in the total investment portfolio of Council, funds will be divested at maturity or as soon as practicable.

### 5.2 Maximisation of returns

Investments should be placed in a manner that maximises the return on funds, after taking into account the need to maintain liquidity. Returns on investment will be maximised as follows:

- Investing any surplus cash in term deposits.
- Term Deposit quotes may be sought from investment intermediaries who source deposit rates from a wide range of banking institutions.

- As a minimum, three quotes are required before investing or re-investing funds and the best possible investment rate must be selected, subject to the limits outlined in this policy at 5.1, 5.3 and 5.4. These limits apply at the time of investment.
- To establish appropriate and objective measures of performance, the following benchmarks on interest rate levels have been set:

<b>INVESTMENT</b>	<b>BENCHMARK</b>
Cash on Call	11 am Cash Rate (As per banking contract)
Other Investments	RBA Cash rate plus 50 basis points

### **5.3 Social and environmental benefit**

Investments should be placed in a manner that considers the social and environmental impacts of the financial institutions offering the investments. Where practical, Council needs to preference financial institutions that do not directly or indirectly support fossil fuel companies.

- The determination as to which financial institutions support sound social, environmental or ethical practices will be made by referring to assessments by various organisations who gather data on the ethical, social or environmental status of financial institutions (such as Market Forces and Ethisphere).
- Preference will be given to investing with such financial institutions where the interest rate quoted is within 0.3% of the best available rate quoted under section 5.1.

### **5.4 Community benefit**

Investments should be placed in a manner that provides Community Banks within the Shire access to Council's investment business. Community Banks play an important role in funding local community projects, which results in significant community benefit. Council will, subject to the limits set out in 5.1, support local Community Bank branches by investing some of its surplus funds where the quoted rate is within 0.3% of the best available rate quoted under 5.1 above.

## **6. AUTHORITY AND DELEGATION**

The Chief Financial Officer has overall responsibility for managing Council's cash balances, approving and advising on Council on investment performance and ensuring compliance with this policy. Finance officers prepare investment recommendations. Approval of any investment is as follows:

- Investment recommendations are reviewed and authorised by either the Chief Financial Officer or the Manager, Finance.
- In the absence of the Chief Financial Officer and the Manager, Finance, the investment recommendations are reviewed and authorised by an officer who is acting in these roles.

When acting under the provisions of this policy Council staff should always maintain a professional balance of risk and return and act as a steward of Council funds.

## 7. TRANSFER OF FUNDS

Funds are transferred electronically and will be authorised by two officers who have delegation to approve transfers from the general bank account.

All term deposit interest earned on investments being rolled over must be redeemed to Council's general bank account at the time of maturity.

## 8. REPORTING

A monthly investment report will be presented to the Executive Leadership Team that provides the following details on the current investment portfolio:

- funds invested,
- counterparties,
- maturity dates,
- interest rates
- Weighted average return
- Statement to confirm compliance with investment policy during the period.

This information will be reported to Council as part of the public facing Quarterly Financial report.

## 9. REVIEW PROCESS

This policy will be reviewed by the Audit Committee and Council every two years.

### Approval

Adopted by Council at its meeting held on

Date 18/03/2020

Signed by the Mayor Brett Tessari

