

# Investment

<b>Council Policy Number</b>	<b>034</b>
Date adopted	19 January 2022
Scheduled for review	January 2025



Council Policy

## 1. Preamble

Council has a responsibility to effectively manage its financial resources and maximise the returns from the investment of surplus funds to support Council's long term financial sustainability.

Council takes a conservative approach to managing its investment portfolio and in accordance with the financial management principles defined within the *Local Government Act 2020*.

This policy sets the parameters that guide the investment of available funds within the requirements of Section 103 of the *Local Government Act 2020*.

## 2. Purpose

To set the parameters to guide the investment of Council's available funds that maximise investment portfolio returns while observing the requirements of the *Local Government Act 2020*.

## 3. Definitions

Counterparty	A legal entity that is a financial service provider who is appropriately regulated. Examples of financial service providers include Authorised Deposit-taking Institutions (ADIs) and financing authorities, treasury corporations or investment corporations established under Commonwealth or State Government legislation.
Short Term Paper Rating	<p>(0-365 days) refers to the institution's capacity to repay debt in the short term.</p> <p>Examples of short term paper are Commercial Bills, Certificates of Deposit and 11am Deposits etc.</p> <p>The short term rating order (as defined by S&amp;P Australian Ratings) is:</p> <p>A1+ extremely strong degree of safety regarding timely payment</p> <p>A1 a strong degree of safety</p> <p>A2 a satisfactory capacity for timely payment</p>
Long Term Paper Rating	<p>is usually Semi-Government and corporate paper etc.</p> <p>The rating order is:</p> <p>AAA and AAA- an extremely strong capacity to repay debt</p> <p>AA+ to AA- a very strong capacity to repay debt</p> <p>A+ to A- a strong capacity to repay debt</p>

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## 4. Policy Statement

### 4.1. Funds available for Investment

Any Council funds not required for financial commitments, having regard for the payment of current liabilities and Council's cash flow requirements, are considered available funds and should be invested to generate interest revenue.

### 4.2. Authority to Invest

Investment of Council funds must be in accordance with section 103 of the *Local Government Act 2020*, which outlines Council may invest;

- a. in Government securities of the Commonwealth;
- b. in securities guaranteed by the Government of Victoria;
- c. with an authorised deposit-taking institution (ADI);
- d. with any financial institution guaranteed by the Government of Victoria;
- e. on deposit with any 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 or investment for the purposes of this section.

Investment decision making is the responsibility of the Manager Finance and General Manager Corporate, who will act within Council's delegations, the *Local Government Act 2020* and other relevant regulations and may be informed by the Financial Accountant and Management Accountant.

Officers will refrain from personal activities that would conflict with the proper execution and management of Council's investment portfolio. The policy requires officers to disclose any conflict of interest to the General Manager Corporate.

Independent advisors are also required to declare that they have no actual or perceived conflicts of interest.

Any breach of this policy will be reported to the General Manager Corporate, Chief Executive Officer and Audit and Risk Committee.

### 4.3. Investment Approaches

In addition to the above statutory investment options, the Council may choose to invest funds directly with ADIs or engage a Fund Manager to invest on Council's behalf.

#### a. Direct investment with ADIs

Council's preferred approach to investment is by direct investment with ADIs. When investing directly with ADIs, the following parameters will guide the selection of the ADI to invest with.

##### i. Asset Quality / Credit Risk Exposure

The minimum and maximum available limits in each rating category and the counterparty limits with any one financial institution is shown in the below table. When placing investments, consideration should be given to the relationship between credit rating, interest rate, duration and strategy.

Long Term Credit Ratings (S & P or Equivalent)	Short Term Credit Rating	Minimum Allocation %	Maximum Allocation %	Counterparty Limits %	Review Range %
AAA	A-1+	35%	100	25	
AA+ to A-	A-1+ to A-1		100	25	+ 10
BBB+ to BBB-	A-2	0	90	25	+ 10
BB+ to B-	A-2		50	10	+ 5
Unrated ADI's	A-3 or lower	0	10	5	+ 5

## ii. Term to maturity investments

The term to maturity of any Council direct investment may range from "at call" to a maximum term of five years.

## iii. Risk Management

When determining investments the risks associated with counterparty, diversification, liquidity, market, duration, capital and reinvestment must be taken into account.

Reinvestment risk refers to the risk that short-dated maturing investments may be reinvested in unfavourable terms (to the detriment of Council's income).

## b. Investment using Fund Managers

### i. Manager selection

Appropriate fund managers for Council's portfolio will be appointed by Council on recommendation of the General Manager Corporate and the Manager Finance.

Regular reviews will be undertaken to ensure their ongoing suitability and to monitor their performance.

### ii. Asset Quality / Credit Restrictions

The credit rating, quality requirements and limitations on suitable investment funds will be set by Council at the time of appointing a fund manager in accordance with Council's risk appetite.

### iii. Duration of investments

All managed funds investments will only be made in cash, cash-plus or fixed interest funds that are denominated in Australian dollar securities. The choice of fund type will depend on Council's investment time horizon, and their risk appetite, e.g. a cash fund (with a bank bill performance benchmark) suits a time horizon of 12 months compared to a long term fixed interest fund that needs a 3-5 year time horizon.

The combined average weighted days to maturity and the overall volatility of any managed funds should be appropriate to Council's investment objectives.

### iv. Diversification

Investments with individual fund managers must not exceed 20% of Council's total investment portfolio value, up to a maximum of \$10 million.

## 4.4. Investment Guidelines

### a. Quotations on investments

Council will structure its affairs in order to be economical in its investment management costs, favouring dealing directly with ADI's.

At times it will be advantageous to deal with third parties that are remunerated on a transactional basis rather than a retainer basis. Council will use such suppliers if it is to Council's advantage, having consideration for the principles of this policy.

Specifically, Council will have regard for:

- Administrative costs
- Ability to access higher rates which exceed the direct transaction cost
- Access to ADI's that would not normally have an institutional direct channel
- Limited access or initial public offering deals or other secondary market opportunities that are only available from specific sources.
- The cost of other distribution channels that do not involve transaction remuneration.

Council will take steps to ensure that:

- Any suppliers used are appropriately licensed, reputable and capable.
- Funds and identification data are sufficiently secured.
- Third party arrangements do not materially impact Council's credit risks by creating exposure to the dealer as a counterparty.
- Remuneration arrangements are reasonable and transparent, whether paid by Council or by the issuer directly.

Subject to meeting all other requirements consideration will then be given to the following:

- An institution's commitment to inclusion, sustainability and community benefit. This can be shown through community stakeholder partnerships, social accountability charters, philanthropic support to community organisations or the operation of sustainability committees. If more than one investment option meets all of Council's policy considerations, preference will be given to those financial institutions that are active and supportive of Council's strategic objectives within the community in terms of financial support for various activities and programs.

**b. Approval of Investments**

All new investments and rollovers of existing investments must be jointly authorised by any two of the following:

- General Manager Corporate or Chief Executive Officer

and one other of:

- Manager Finance
- Financial Accountant
- Management Accountant

**c. Investing Process**

The following must be undertaken when investing funds in accordance with this policy:

- i. Calculate surplus funds to be invested taking into account future cash flows. This as a minimum would require assessment of payroll periods, creditor runs and revenue streams such as payment of rates, Victorian Grants Commission and debtors.
- ii. Review other investment maturity dates, along with items noted in Step (i). Gauge the current maturity dates, and if possible plan to have new investments fall due before days when cash outflow will be high.
- iii. Once the investment amount and maturity has been determined, review interest rates from various financial institutions attempting to maximise the return whilst ensuring compliance with the policy.
- iv. Finalise all authorisation forms required with financial institution and process EFT.
- v. Register all investment paperwork into the corporate document management system.

**d. Credit Rating**

Council should keep a current list of Short and Long Term paper ratings of all institutions, funds and fund managers being not more than six (6) months old. If any of the funds / securities held are downgraded such that they no longer fall within Council's investment policy guidelines a risk based approach will be used to assess what action needs to be taken.

- Low risk - the investment will be retained until maturity.
- Medium risk – monitor to ensure the risk does not increase, maintain to maturity if risk remains stable.
- High risk - takes steps to redeem the investment as soon as practicable.

**e. Reporting**

Accounting for investments will comply with Australian Accounting Standards and the *Local Government Act 2020*.

**5. Exclusions**

Nil

**6. Human Rights**

This policy has considered and complies with the Human Rights and Responsibilities contained in the Victorian Charter of *Human Rights and Responsibilities Act 2006*.

**7. Related Legislation**

Local Government Act 2020

Australian Accounting Standards

**8. Related Policies, Procedures and Strategies**

Financial Plan

**9. Attachments**

Nil

**Review Period**

Three years

**Responsible officer**

Manager Finance

**Administrative Updates**

It is recognised that, from time to time, circumstances may change leading to the need for minor administrative changes to this document. Where an update does not materially alter the policy, such a change may be made administratively. Examples include a change to the name of a Council department, a change to the name of a Federal or State Government department, and a minor update to legislation which does not have a material impact. However, any change or update which materially alters this document must be by resolution of Council.

**Approval History**

Adopted	15 May 1996	Minute Book Reference No1066 (Item 13.2)
Revised	10 September 1998	Minute Book Reference No 3038 (Item 13.1)
Revised	8 July 1999	Minute Book Reference No 3737 (Item 12.1)
Revised	12 September 2000	Minute Book Reference No 4658 (Item 12.1)
Revised	11 September 2001	Minute Book Reference No 5565 (Item 12.2)
Revised	13 August 2002	Minute Book Reference No 6305 (Item 12.1)
Revised	16 October 2007	Minute Book Reference No 11542 (item 9.1)
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Revised	20 August 2013	Minute Book Reference No 1041 (Item 6.3)
Revised	19 August 2014	Minute Book Reference No 881 (Item 6.2)
Revised	18 August 2015	Minute Book Reference No 905 (Item 6.2)
Revised	16 August 2016	Minute Book Reference No 731 (Item 6.2)
Revised	16 October 2018	Minute Book Reference No 3764 (item 7.2)
Revised	19 January 2022	Minute Book Reference No 4 (item 9.2)

Chief Executive Officer: .....

Date: ..... 24 JANUARY 2022 .....