

Investment Policy

Corangamite Shire

March 2023



**CORANGAMITE
SHIRE**



Council Policy

Investment Policy

Introduction

This policy provides guidance on the effective and responsible utilisation of Council's surplus cash funds within the government legislative framework and will conform to applicable Federal and State regulations.

Particular emphasis is directed towards investment decisions that limit unnecessary exposure to risk and optimise return on investment whilst ensuring sufficient liquidity for Council's on-going operating commitments.

Section 102 of the *Local Government Act 2020* (the Act) requires Council to prepare and adopt financial policies that give effect to the financial management principles (section 101) of the Act. Section 101 also requires Council's financial risks be monitored and managed prudently having regard to economic circumstances. The Section 101 defines financial risks as including any risk relating to the financial viability of the Council. This Policy will ensure Council meets its obligations under the Act.

Purpose

This policy establishes the basis for the investment of Council's surplus funds and to optimise the balance between risk and return. The purpose of Council's investment policy is to ensure that:

- All funds are invested in accordance with legislative and Council requirements.
- Effective internal controls are in place to minimise investment risk and unauthorised appropriation of Council funds.
- All investment transactions are appropriately authorised and documented.
- Investment decisions are based on the security of funds by limiting unnecessary exposure to risk.
- The financial yield is enhanced through prudent investment of funds whilst ensuring sufficient liquidity for Council's day to day operational commitments.
- Legally restricted funds are appropriately invested so as to earn a reasonable income towards their purposes (whilst limiting unnecessary exposure to risk).

Scope

This policy applies to all Council officers (Investment Officers) who are involved in the investment of Council funds. It is considered that this Policy does not impact negatively on any rights identified in the *Charter of Human Rights and Responsibilities Act 2006*.

Definitions

- The Act – *Local Government Act 2020*
- APRA – Australia Prudential Regulation Authority
- ADI – Authorised Deposit-taking Institution. It covers banks, building societies and credit unions.
- AFS – Australian Financial Services
- VFMC - Victorian Funds Management Corporation
- S&P – Standard and Poor's rating agency

- Moody's – Moody's rating agency
- Investment Officers – Director Corporate and Community Services, Manager Finance, Accountant(s).
- Senior Officer Group – Executive management team consisting of Chief Executive Officer, Director Corporate and Community Services, Director Sustainable Development, Director Works and Services.

References

- *Local Government Act 2020* (specifically Section 103 – Investments)
- Australia Prudential Regulation Authority

Policy Detail

1. Prudent Person Standard

The standard of prudence is to be used by Investment Officers when managing the overall portfolio. Investments will be managed with the care, diligence and skills that a prudent person would exercise in managing the affairs of other persons. This includes having in place appropriate reporting requirements that ensure the investments are being reviewed and overseen regularly.

Investment Officers are to manage the investment portfolios not for speculation, but for investment in accordance with this Policy. Investment Officers are to avoid any transaction that might harm confidence in Council. Investment Officers must consider the safety of capital and income objectives when making an investment decision.

2. Ethics and Conflicts of Interest

Investment Officers shall refrain from personal activities that would conflict with the proper execution and management of Council's investment portfolio. This includes activities that would impair the investment officer's ability to make impartial decisions.

The Policy requires that Investment Officers disclose to the Chief Executive Officer any conflict of interest on any investment positions that could be related to the investment portfolio.

3. Delegation of Authority

Authority for implementation of the Policy is delegated by the Council to the Chief Executive Officer in accordance with the Victorian *Local Government Act 2020*.

Authority for the day-to-day management of the Council's investment portfolio is delegated by the Chief Executive Officer to the Director Corporate and Community Services and Manager Finance. Investment Officers have the authority to review the reasonableness of an investment, initiate or redeem an investment in accordance with this policy.

3.1.1. Term to Maturity of Investments

Investment Officers are only permitted to invest in term to maturity deposits or similar products with an ADI. Such investment products must have a readily available market and may include any of the following types of investments:

- At call accounts
- Fixed term deposits
- Negotiable Certificates of Deposit
- Bank bills
- Promissory notes
- Bonds
- Floating Rate Notes
- Floating Rate Certificates of Deposit

3.1.2. All other investments

All other investments, including investments in managed investment schemes (managed funds) or Australian equities, will need a specific Council resolution and must:

- Be in a manner approved by the Minister, either generally or specifically
- Be supported by sufficient working capital.

Investments in Managed Funds, Fixed Interest Securities of an Australian Authorised Deposit Taking Institution and Shares listed on the Australian Stock Exchange must be managed by the Victorian Funds Management Corporation. (Currently, investments with the VFMC must be for a minimum value of \$2million and for a minimum term of three years.)

At the time of placing an investment under this subclause the aggregate of total funds invested of this nature (i.e. non term to maturity investment under 3.1.1 above) must not exceed one-third (33.3%) of total investment funds available. Where the aggregate of the portfolio exceeds this limit the Investment Officers will work towards balancing the portfolio as future investments mature.

4. Investment Objectives

Council's overall objective is to invest its funds at the most advantageous rate of interest/return available to it at the time, for that investment type, and in a way that it considers most appropriate given the circumstances. In priority, the order of investment priority shall be preservation of capital, liquidity, and return.

4.1. Preservation of Capital

Preservation of capital shall be the principal objective of the investment portfolio. Investments are to be performed in a manner that seeks to ensure security of principal of the overall portfolio. This includes managing credit and interest rate risk within given risk management parameters and avoiding any transactions that would prejudice confidence in Council. Diversification of investments assists in reducing the overall risk of the investment portfolio.

4.2. Maintenance of liquidity

In addition to the balances held in its bank account for routine operating requirements, the investment portfolio will maintain sufficient liquidity to meet all reasonably anticipated operating cash flow requirements of Council, as and when they fall due, without incurring significant transaction costs due to being required to sell or redeem an investment.

4.3. Return on Investments

The portfolio is expected to achieve a market average rate of return and take into account Council's risk tolerance and current interest rates, budget considerations, and the economic cycle.

Investment Officers should aim to maximise where possible, favourable returns that do not jeopardise the security of funds invested.

5. Portfolio Implementation

5.1. Authorised Personnel

The Investment Officers are authorised to invest Council's operating funds consistent with this Policy and legislation.

5.2. The Role of the Audit and Risk Committee

To ensure separation of duties, the Audit and Risk Committee will:

- Oversee the development and maintenance of the Policy and its guidelines.
- Recommend to the Council modification to the Policy.
- Monitor compliance with the Act.

The Audit and Risk Committee is not to direct investment decisions or become involved in the management of the investment portfolio. Its role is to review the policy, processes and refer investment decisions to the Council if required.

5.3. Internal Controls

The Manager Finance will establish internal controls and processes that will ensure investment objectives are met and that the investment portfolio is protected from loss, theft or inappropriate use.

To minimise the potential for investment risk and unauthorised appropriation of Council funds, the following internal controls will apply:

- All placement and redemption of investments must be authorised by any two of the Investment Officers, one of which must be Director Corporate and Community Services or Manager Finance.
- The investment authorisation process must be carried out in accordance with any other relevant policies and procedures.
- Each transaction will require written confirmation by the Financial Institution.
- Investments are to be reconciled monthly to the General Ledger

6. Investment Parameters

6.1. Prohibited Investments

This Policy prohibits any investment carried out for speculative purpose, including the following:

- Derivative based investments;
- Principal only investments or securities that provide nil or negative cash flow;
- Standalone securities issued that have underlying futures, options, forward contracts and swaps of any kind;
- Any investments or securities issued in non-Australian currency; and
- 'Enhanced cash Funds' or similar products that fall within the definition of a Collateralised Debt Obligation (CDO).

6.2. Term to Maturity investments are required to be made with an APRA approved ADI.

6.3. Money is to be transferred using the General Bank Account

- Funds must be transferred electronically and be authorised by two officers who are authorised signatories on the general bank account.
- Interest earned on investments being rolled over may either be reinvested or redeemed to Council's general bank account at the time of maturity.
- All funds that are being redeemed, or interest being paid, must be directly credited to Council's general bank account.

6.4. Factors to consider when investing

In order to meet investment objectives, Investment Officers must take into consideration all of the following factors when carrying out investment functions:

6.4.1. Existence of Guarantee and security

Determine whether the investment is guaranteed by the Institution, or by the Government. Note the Commercial / Bank Bills guaranteed by the Institution, although guaranteed, rank as an unsecured creditor in the event of winding up.

6.4.2. Credit Rating of Institution and Portfolio Investment Parameters

a) Term to Maturity of Investments

A credit rating is used to determine the level of risk involved when investing with the ADI. All investments should not have a risk exposure greater than the minimum set out in the table below. The table also details the maximum percentage of funds that may be held by any one financial institution, the maximum term to maturity and the maximum percentage of total investment portfolio.

Long Term		Short Term		Maximum term to maturity	Maximum Portfolio Allocations	
S&P	Moody's	S&P	Moody's		Funds with a single ADI	Percentage of total portfolio
AAA	Aaa	A-1+	P-1	2 Years	50%	100%
AA+	Aa1					
AA	Aa2					
AA-	Aa3					
A+	A1	A-1	P-1		25%	50%
A	A2					
A-	A3					
BBB+	Baa1	A-2	P-2		25%	25%
BBB	Baa2					

Where the aggregate of the portfolio decreases resulting in funds with a single ADI or within a particular credit rating exceeding the applicable limit, the Investment Officers will work towards balancing the portfolio as future investments mature.

b) Managed Investment Schemes (Managed Funds)

Investments in Managed Investment Schemes must be in a manner approved by the Minister. Investments in Managed Investment Schemes must also be in accordance with 3.1.2 above.

6.4.3. Investment Term and Amount

Investments can be made at any time where excess cash is available. It is prudent to have multiple investments with varying maturity dates to maximise returns to meet Council’s cash flow requirements. Investment Officers should ensure a sufficient level of funds is available to meet short term debts. However, discretion of the Director of Corporate and Community Services or Manager Finance can be used in regards to diversification for funds placed in “At-Call” type accounts.

6.4.4. Other considerations

Council's aim is to invest funds to obtain the best return possible with the least risk, however, consideration must be given to any fees applicable to transferring funds between Institutions that may erode investment returns.

6.5. Use of Licenced Broker

Term to maturity Investments can be placed directly with an ADI or through an AFS licenced broker.

6.6. Quotation on Investments

Not less than three (3) quotations shall be obtained from approved ADI's whenever a Term to Maturity investment is proposed. The best quote will be successful after allowing for administrative and banking costs, as well as having regard to the limits set above.

Investment Officers shall take into account the following factors:

- The level of risk against return (i.e.: credit rating vs interest rate).
- The process required to transfer cash to the institution.
- The spread of Council's existing investments.

7. Investment Decision

All investments should be reviewed by another Investment Officer of which one must be either the Director Corporate and Community Services or Manager Finance. An investment decision is required to have sufficient documentation to meet the policy and audit requirements.

8. Reporting On Investments

- Investment activities and results must be reviewed on a monthly basis by the Manager Finance.
- An investment summary of compliance to the Investment policy to be included in the quarterly Finance report to Council and the Audit and Risk Committee.
- A register of investments will be maintained together with an investment file containing all letters of advice.
- Investments will be brought to account and valued at fair value plus transaction costs directly related to the acquisition of the financial asset in accordance with IFRS.
- Interest revenue will be recognised as it is earned.

Legislative compliance

All investments must comply with Section 103 of the *Local Government Act 2020*, relevant regulations and Ministerial guidelines.

Review Date

The Policy will be reviewed in March 2025 or as required by changed circumstances, including changes to legislation and policies.

It is considered that this Policy does not impact negatively on any rights identified in the *Charter of Human Rights and Responsibilities Act 2006*.