



# INVESTMENT OF COUNCIL FUNDS POLICY

Policy Number	C24	Directorate	Corporate & Community Services
Policy Adoption Date	25 March 2020	Department	Finance Department
Next Review Date	March 2024		

## 1. POLICY OBJECTIVE

The objective of Council's Investment Policy (the Policy) is to ensure that:

1. Council funds are invested by Responsible Council officers with approved financial institutions.
2. All funds are invested in accordance with legislative and council requirements.
3. Investment decisions are based on the security of funds by limiting exposure to acceptable risk.
4. The financial yield is enhanced through prudent investment of funds, whilst ensuring sufficient liquidity for Council's day to day operational commitments.
5. Communities with a community bank facility benefit from Council investing up to 35% of available cash with them, to indicate a level of corporate support and acknowledgement of the role community banks provide to their local communities.

## 2. INVESTMENT OF COUNCIL FUNDS POLICY

The Local Government Act 1989 provides local Councils in Victoria with guidelines and restrictions as to the type of investments that they can make. South Gippsland Shire Council has established an Investment Policy that specifies the framework within which investments will be made.

This Policy is to be read in conjunction with Section 143 – (Investments) of the Local Government Act 1989, which sets out the requirements in relation to the Financial Institutions with whom a Council may invest.

### 2.1 Delegation of Authority

Authority for implementation of the Investment Policy is delegated by Council to the Chief Executive Officer (CEO) in accordance with the *Local Government Act 1989*. The CEO may in turn delegate the day to day management of Council's Investment portfolio to a Principal Accounting Officer or senior officers in accordance with section 224 of the Local Government Act 1989.

### 2.2 Prudent Person Standard

The investment portfolio will be managed with the care, diligence and skill that a prudent person would exercise. Officers are to manage the investment portfolio to safeguard it in accordance within this Policy, and not for speculative purposes.



## 2.3 Ethics and Conflicts of Interest

Officers shall refrain from personal activities that would conflict with the proper execution and management of Council's investment portfolio. This Policy requires officers to disclose any conflict of interest to the Chief Executive Officer.

## 2.4 Approved Investments

Pursuant to section 143(f) of the Local Government Act 1989, the Minister for Local Government has approved the following manners of investment to apply generally to all councils:

In Government securities of the Commonwealth.

1. In securities guaranteed by the Government of Victoria.
2. With an authorized deposit-taking institution (ADI).
3. With any financial institution guaranteed by the Government of Victoria,
4. On deposit with an eligible money market dealer within the meaning of the Corporations Act.
5. In any other manner approved by the Minister, after consultation with the Treasurer, either generally or specifically, to be an authorized manner of investment for the purposes of this subsection.
6. Investments in the Treasury Corporation of Victoria.

Council's Own Direct Investments:

1. Should 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.
2. Require the best possible investment rate at the time of investment to be used subject to limits outlined in Table 1.
3. Require all quoted interest rates and actions taken to be recorded.
4. Require that the amount invested with any one financial institution not exceed the limits as outlined in Table 1.
5. 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.
6. Recognise that Council has an ongoing arrangement with Bendigo and Adelaide Bank to invest up to 35% 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 10 basis points of the best rate obtained on that day.



7. 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
	Short Term Rating	Long Term Rating		
<b>Major<sup>^</sup></b>	A1+	AAA to AA-	50%	100%
<b>A Rated</b>	A1	A+ to A-	40%	90%
<b>B Rated</b>	A2	BBB+ to BBB-	20%*	80%

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

<sup>^</sup> For the purpose of this Policy, "Major" is currently defined as the 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).

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.

## 2.5 Prohibited Investments

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

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

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

## 3.0 REPORTING AND POLICY REVIEW



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.

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.

Documentary evidence must be held for each investment and details thereof maintained in an Investment Register.

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.

This Investment Policy (C24) will be reviewed at least once every 4 years or as required in the event of legislative changes.

Any economic changes that may significantly impact the S&P ratings of ADI's as described in Table 1 will also require a review to ensure that the risk appetite remains appropriate in the changed economic environment.

#### **4.0 RISK MANAGEMENT**

Surplus funds should firstly be invested with the community bank to a limit of 35% of available cash, providing that the community bank rate is not more than 10 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.

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.

#### **5.0 IMPLEMENTATION STATEMENT**

Financial accountant and finance staff to be advised of Policy provisions for their information and implementation.

**SUPPORTING INFORMATION**

<b>Legislative Provisions</b>	<i>This Policy applies to investments made by Council Finance Officers in accordance with the requirements of Section 143 of the Local Government Act 1989 (the Act).</i>
<b>Council Supporting Documents</b>	<i>Nil</i>
<b>File Location</b>	<a href="#">D144120</a>

**DEFINITIONS and ACRONYMS**

<b>Council Officer</b>	<i>The Chief Executive Officer and staff of Council appointed by the Chief Executive Officer.</i>
<b>Community Bank</b>	<i>A bank that is set up by the community under the auspices of a major bank (e.g. Bendigo Bank).</i>
<b>Investment Portfolio</b>	<i>The investments held by Council at any one time.</i>
<b>Speculative</b>	<i>A speculative deal involves deliberately taking a higher risk, in the hope of making an extraordinary gain.</i>
<b>Yield</b>	<i>The annual rate of return on an investment.</i>
<b>LGA</b>	<i>Local Government Act 1989</i>

**REVISION HISTORY**

<b>Version</b>	<b>Approved</b>	<b>Approval Date Range</b>	<b>Sections Modified</b>
2	ELT	16/01/2020	Table 1, Reporting & Review