

Category: Financial Management

Adoption: Council

Date: 12 April 2016

Review period: Three years

Responsible Manager: Director Corporate Support

Purpose / Objective:

To provide guidance to officers managing, investing and redeeming Council's funds to maximise earnings whilst managing risk to ensure the security of Council funds and compliance with the Local Government Act 1989 (The Act).

Scope of this Policy:

This policy covers the investment of any Council funds and applies to any Council officer who has responsibility for funds management.

Background / reasons for Policy:

Appropriate investment of Council funds should result in maximising earnings whilst managing the risks involved in the investment and ensuring that Council funds are secure and available when required. The Act also sets out requirements for the investment of Council funds and compliance with these requirements is mandatory.

Policy content:

Investments shall be made with good judgement and care, not for speculation, and considering the probable safety of the capital as well as the probable income to be derived.

Authority for Investment

All investments are to be made in accordance with the Act 1989 No.11 – Section 143.

The Act dictates that a Council may invest any money:

- a) in Government securities of the Commonwealth;
- b) in securities guaranteed by the Government of Victoria;
- c) with an authorised deposit-taking institution;
- d) with any financial institution guaranteed by the Government of Victoria;
- e) on deposit with an eligible money market dealer within the meaning of the Corporations Act; and
- f) in 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.

Delegation of Authority

The Manager Finance and the Accountants have the authority to invest surplus funds managed in an investment portfolio, under the supervision of the Director Corporate Support and the Chief Executive Officer.

All initial investments with a new institution must be approved by the Director Corporate Support or the Chief Executive Officer.

Authorised Investments

Authorised investments (to be denominated in Australian dollars) would include but not necessarily be limited to:

- Local / State / Commonwealth Government Bonds, Debentures or Securities;
- Broker sponsored deposits issued by an investment broker (or its ultimate parent company), who has a minimum long term credit rating of 'AA' (S & P Australian Ratings) or better, or Moody Investor Services equivalent;
- Deposits in prescribed securities that either have a minimum long term credit rating of 'A' or a short term rating of 'A1' from Standard & Poor's, Moody Investor Services or Fitch Ratings equivalent; and
- Interest-bearing deposits / securities issued by a licensed bank, building society or credit union and other similar products.

Liquidity

- The investment portfolio will remain sufficiently liquid to enable Council to meet all operating requirements which might be reasonably anticipated.
- Investment maturities will be scheduled to coincide with projected cash flow needs.

Risk Management Guidelines

Council's investment portfolio is to comply with three key criteria relating to:

- Portfolio Credit Framework: limit overall credit exposure of the portfolio.
- Counterparty Credit Framework: limit exposure to individual institutions.
- Term to Maturity Framework: limits based upon maturity of securities.

a) Portfolio Credit Framework

To control credit quality on the entire portfolio, the following credit framework limits the percentage of the portfolio, based upon Council's average annual balance, exposed to any particular Standard and Poor's (S&P) credit rating category:

Overall Portfolio Credit Limits

Overall Portfolio Credit Limits		
Long-Term Credit Ratings	Short-Term Credit Ratings	Maximum
AAA Category	A-1+	100% max
AA Category	A-1	100% max
A Category or below	A-2	60% max

* Investments with counterparties below A Category (Long Term) are to be restricted to Authorised Deposit Taking Institutions (ADI's – such as banks, building societies and credit unions) regulated by, and subject to the prudential standards of the Australian Prudential Regulation Authority (APRA).

b) Individual Institution Credit Framework

Exposure to an individual institution will be restricted by their S&P rating so that single entity exposure is limited, as detailed in the table below:

Individual Institution Limits		
Long-Term Credit Ratings	Short-Term Credit Ratings	Maximum (per institution)
AAA Category	A-1+	25%
AA Category	A-1	20%
A Category or below	A-2	20%

* Investments with counterparties below A Category (Long Term) are to be restricted to Authorised Deposit Taking Institutions. Investments in unrated institutions are restricted to those with a minimum total Asset Size of \$1 billion.

- The short-term credit rating limit will apply in the case of discrepancies between short and long-term ratings.
- In the event that a credit rating of a security or of the company/body issuing the security falls below the required minimum, Council will make all necessary arrangements to withdraw deposits as soon as practical.
- Percentage limits based on Council's average core portfolio balance, and exclude funds held in operation accounts by Councils banking services provider.

c) Term to Maturity Framework

The investment portfolio is to be invested within the following terms to maturity constraints:

Overall Portfolio Term to Maturity Limits	
Portfolio % < 12 months	100% max; 60% min
Portfolio % > 12 months < 36 months	40% max

Reporting

- Accounting for investments will comply with the Australian Accounting Standards (AAS), Urgent Issues Group (UIG) Consensus views, and the Act;
- A report will be provided to Council detailing investment income versus budget year to date, investments undertaken including return rates and credit risk assessments, and the percent of investments that are held with institutions that divest from fossil fuels. This report is to be at least provided quarterly.
- For audit purposes, bank confirmations must be obtained from the banks / fund managers confirming the amounts of investment held on Council's behalf at 30 June each year.

Fossil Fuel Divestment

Fossil fuel divestment is the removal of investment assets, including term deposits from companies involved in extracting fossil fuels to reduce the effects of climate change.

Council will provide preference to financial institutions that do not invest in or finance the fossil fuel industry where:

- The investment is compliant with Council's Investment Policy overall portfolio credit limits and individual institution limits (parts a and b of this policy); and
- The investment rate of interest is equal to, or favourable to Council relative to other similar investments that may be on offer to Council at the time of investment.

Variation to Policy

The Chief Executive Officer or their delegated representative is authorised to approve variations to this policy if the investment is to Council's advantage and/or due to revised legislation.

All significant changes to this policy are to be reported to Council within two months.

Investments shall be made with good judgement and care, not for speculation, and considering the probable safety of the capital as well as the probable income to be derived

Definitions:

Credit Ratings: -

- AAA – Highest credit quality – This rating indicates the lowest expectation of credit risk. They are assigned only in the case of exceptionally strong capacity for payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.
- AA – Very high credit quality – This rating indicates expectations of very low credit risk. They indicate very strong capacity for payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
- A – High credit quality – This rating indicates expectations of low credit risk. The capacity for payment of financial commitments is considered strong. The capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions than is the case for higher ratings.
- BBB – Good credit quality – this rating indicates that there is currently an expectation of low credit risk. The capacity for payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions is more likely to impair this capacity. This is the lowest investment-grade category.
- A1+ - Extremely strong degree of safety regarding timely payment.
- A1 – A strong degree of safety.
- A2 – A satisfactory capacity for a timely payment

Related Policies:

Nil.

Relevant Legislation:

Local Government Act 1989

References:

Council's Financial Authorisations and Delegation.