

SCS-016 Investment Policy

TRIM Reference: D21/72199 Due for Review: June 2027
 Responsible Officer: Manager Finance

Purpose

This policy outlines Council’s requirements to ensure that all of Council’s investments are actively managed within the framework of the Local Government Act, and provide maximum returns for ratepayers with consideration of an acceptable level of risk.

Policy Principles

This policy creates a framework that allows Surf Coast Shire Council to manage its investment portfolio to achieve the financial goals in line with the Council Plan.

Scope

This policy sets out the Surf Coast Shire’s policy and risk assessment approach for management of Council’s investments, and applies to all funds invested on behalf of Surf Coast Shire Council.

This policy applies to all individuals involved in investing funds on behalf of Council.

Definitions

Investments	Include all cash and cash equivalents either restricted or unrestricted, excluding cash on hand. This includes discretionary and non-discretionary cash-backed reserve funds.
Short Term Investment	An investment that has a term to maturity of 12 months or less from the date the investment was made.
Long Term Investment	An investment that has a term to maturity of more than 12 months from the date the investment was made and is restricted to a maximum term.
Target Rate of Return	Investment rate of return is above the 90 day bank bill swap rate plus 30 basis points.
Maximum Term	Term to maturity of an investment is restricted to 5 years or less from the date the investment was made.
Liquidity Risk	Includes the risk that, as a result of our operational liquidity requirements: <ul style="list-style-type: none"> we will not have sufficient funds to settle financial transactions when due; or we will be forced to sell investments at a value which is less than face value; or we may be unable to settle or recover financial assets.
Credit Risk	Includes the risk that a financial institution will not complete its obligations under a financial instrument and cause a financial loss.
Australian Bank	A bank or financial institution authorised under the laws of Australia to carry out the business of banking in Australia.
ADI	Refers to an authorised deposit-taking institution, meaning a body corporate authorised under section 9 of the Banking Act 1959, to carry on banking business in Australia (e.g. a bank, building society or credit union).

Credit ratings (published by Standard & Poors or Moody’s Rating Services):

Short Term Ratings

S&P	Moody’s	
A-1+	P-1	The obligator’s capacity to meet its financial commitment on the obligation is STRONG. Where the capacity to meet a particular obligation is EXTREMELY STRONG that obligation is designated with a plus sign, ie. A1+

A-2	P-2	The obligator's capacity to meet its financial commitment on the obligation is SATISFACTORY, being somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than those rated A-1.
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Long Term Ratings

S&P	Moody's	
AAA	Aaa	The obligator's capacity to meet its financial commitment on the obligation is EXTREMELY STRONG.
AA-	Aa3	The obligator's capacity to meet its financial commitment on the obligation is VERY STRONG.

Policy

Council has a responsibility to actively manage its pooled investment portfolio to increase the potential for better returns and at the same time ensure prudent investments with low risk and sufficient liquidity is maintained to make payments when due and payable.

Council will comply with the following in regard to investments:

- *Local Government Act 2020*
S101 – Financial management
 - (1) The following are financial management principles:
 - (a) revenue, expenses, assets, liabilities, investments and financial transactions must be managed in accordance with a Council's financial policies and strategic plans;
 - (b) financial risks must be monitored and managed prudently having regard to economic circumstances;
 - (c) financial policies and strategic plans, including the Revenue and Rating Plan, must seek to provide stability and predictability in the financial impact on the municipal community;
 - (d) accounts and records that explain the financial operations and financial position of the Council must be kept.

- S103 - A Council may invest any money –
 - (a) in Government securities of the Commonwealth; and
 - (b) in securities guaranteed by the Government of Victoria; and
 - (c) with an ADI (authorised deposit-taking institution); and
 - (d) with any financial institution guaranteed by the Government of Victoria; and
 - (e) on deposit with an eligible money market dealer within the meaning of the Corporations Act;
 - (f) in any other manner approved by the Minister, either generally or specifically, to be an authorised manner of investment for the purposes of this section.

- Investment Management Policy and Procedure
- Australian Accounting Standards

Council may elect to invest in any or all options available under the Local Government Act, however, in order to reduce exposure to risk, the investment instrument must also meet the following criteria:

- Investment product must be issued by an Australian owned financial institution or an Australian based financial institution with a registered ABN and a Regional office in Australia
- Council investments will have an upper exposure limit of 30% of total funds invested with each institution and their subsidiaries.
- Investment must be convertible to cash at any time with a maximum of 35 days notice
- Investments shall only remain in the following range of credit ratings published by the following Rating Services at all times:
 - Short Term Ratings between:
 - A-1+ (S&P) or P-1 (Moody's), and
 - A-2 (S&P) or P-2 (Moody's)
 - Long-term ratings between:

- AAA (S&P) or Aaa (Moody's), and
 - AA- (S&P) or Aa3 (Moody's)
- The capital investment must not drop below its face value (ie the initial investment must be preserved).

Environmental Awareness

Council officers will take consideration of the environmental status of Financial Institutions into the decision making process as new investment opportunities arise. If two investment opportunities arise with the same rate of return, preference will be given to the institution that does not fund fossil fuel developments.

Investment Management Responsibilities

The Manager Finance or the Coordinator of Financial Accounting in the Manager Finance's absence, is authorised to manage Council's investment portfolio.

This responsibility includes:

- Actively managing the investment portfolio to increase the potential for better returns and at the same time ensure prudent investments with low risk,
- Minimising the likelihood of overdraft,
- Making investment decisions within the parameters of this policy, and
- Maintain a register of investments which also tracks investments held with institutions that fund fossil fuel development.

Investment objectives

Surf Coast Shire seeks a balanced investment portfolio which aims to deliver enhanced returns whilst providing security, convenience and easy access to funds as cash flow requirements.

The objectives of this policy, in order of importance, are:

1. Preservation of capital;
2. Ensuring sufficient liquidity is maintained; and
3. Maximising the return on cash balances.

Preservation of capital involves minimising credit risk associated with a financial institution. Credit risk is managed by:

- only investing surplus funds with financial institutions which have a recognised credit rating specified in this Policy;
- only investing with Australian owned financial institutions, or Australian based financial institutions with an ABN and a regional office in Australia where the capital investment amount is guaranteed to be preserved by the financial institution;
- only investing in financial instruments that are convertible to cash with a maximum 35 days notice; and
- eliminating currency risk by only investing in financial instruments in Australian dollars (AUD).

Minimising liquidity risk involves:

- targeting a minimum level of cash and cash equivalents to be maintained;
- having readily accessible facilities in place;

- having a liquidity portfolio structure that requires surplus funds to be invested within various bands of liquid instruments; and
- monitoring budget to actual performance on a regular basis.

Investment Management

To meet the objectives above the investment portfolio will be managed by using an institution credit rating framework and a term to maturity framework.

Institution Credit Rating Framework

Investments are limited to a specific range of investments as published by Standard & Poor's (S&P) or Moody's Rating Services and outlined in this policy. Investment credit ratings advised by the investment institution or broker must be independently verified and documented. Credit ratings should be monitored regularly in the financial press to ensure compliance with the Policy requirements. In the event of an adverse report being published in the financial press, the suitability of that institution for Council investments shall be reassessed and documented.

The level, degree and type of risks that are acceptable for any investment product will be:

- Liquidity with withdrawals available on a maximum 35 days notice;
- No penalties, other than loss of interest for early conversion to cash; and
- Have certainty regarding capital preservation with strong credit protection.

Term to Maturity Framework

The following principles apply to maximise investment opportunities and maintain appropriate liquidity levels:

1. A minimum liquidity buffer level is set for operations (liquidity buffer limits).
2. An amount of surplus cash is set that should trigger an investment.
3. Investment maturity dates are aligned to the liquidity buffer limit.
4. A short term bias is generally applied to allow a level of flexibility if Council priorities change.

The following actions are required to ensure that the above principles are applied:

1. At call balances must remain above the minimum of the total cash requirement predicted. Surplus cash above this amount should be considered for investment opportunities. This amount should be increased where any uncertainty exists within the forecast cash balances.
2. Surplus daily cash in excess of long term investments shall be documented and considered prior to investing funds.

All written correspondence, including investment confirmation advice, between Surf Coast Shire and appointed investment brokers/institutions must be documented and filed.

Risk Assessment

Investment risk is evaluated through the use of a standard risk assessment template.

The investment risk assessment template includes:

- Type of investment product;
- Term of investment;
- Any uncertainties on the rate of return;

- Risk Credit Rating;
- Where the funds are to be invested
- If any, the time lag to convert the investment to cash; and
- Penalties associated with breaking the term of the investment.

At least one of the two staff members with relevant authority releasing the funds for investment, should exclude the preparer and the approver signing off on the Investment Risk Assessment form.

Investment rating downgrades

From time to time investment product credit ratings may be upgraded or downgraded. If an investment product that Council already holds is downgraded below that required in this policy, the Coordinator Financial Accounting will prepare a report to the Manager Finance documenting:

- The affected investment and the circumstances around the downgrade;
- The significance of the rating downgrade;
- The remaining length of time until investment maturity;
- The penalty costs payable as a result of breaking the investment early; and
- Other movements in credit ratings for comparable institutions.

The Manager Finance will then make a decision as to whether the investment should be redeemed early or not.

Reporting

A report on Investment performance should be shared with Councillors on a minimum quarterly basis.

Any breach of this policy should be notified to the CEO within 24 hours of the breach being detected and to the Audit and Risk Committee at the meeting following the breach.

Note, on occasion the upper exposure limit for an individual financial institution (including subsidiaries) may be breached due to the redemption of unrelated investments within the portfolio which cause the overall portfolio value to decrease. This does not constitute a breach of Policy. However, no new investment contracts may be entered into with any financial institutions that would cause that institution to breach or remain above the upper exposure limit.

Records

Records shall be retained for at least the period shown below.

Record	Retention/Disposal Responsibility	Retention Period	Location
Investment Risk Assessment Form for each new investment	Finance Department	7 years	Shire Office

Attachments

N/A

Document History

Version	Document History	Approved by – Date
1	<i>Amended</i>	<i>Council Resolution – 27 Aug 2019</i>
2	<i>Amended</i>	<i>Council Resolution – 19 January 2021</i>
3	<i>Amended</i>	<i>Council Resolution – 24 June 2021</i>

4	<i>Amended</i>	<i>Council Resolution – 27 June 2023</i>
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