

# SCS-016 Investment Policy

TRIM Reference: D21/72199 Due for Review: 24 June 2023  
 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, taking into account consideration of the reduction in investment market opportunities due to the impact of the Coronavirus pandemic and subsequent recession.

## 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 Councillors, Committee members, employees and contractors of the Surf Coast Shire Council. This Policy includes a temporary increase to maximum investment levels per ADI to allow for continued operation during the Covid-19 Pandemic recovery period.

## Definitions

<b>Investments</b>	Include all cash and cash equivalents either restricted or unrestricted, excluding cash on hand. This includes discretionary and non-discretionary cash-backed reserve funds.
<b>Short Term Investment</b>	An investment that has a term to maturity of 12 months or less from the date the investment was made.
<b>Long Term Investment</b>	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.
<b>Target Rate of Return</b>	Investment rate of return is above the 90 day bank bill swap rate plus 30 basis points.
<b>Maximum Term</b>	Term to maturity of an investment is restricted to 5 years or less from the date the investment was made.
<b>Liquidity Risk</b>	Includes the risk that, as a result of our operational liquidity requirements: <ul style="list-style-type: none"> <li>we will not have sufficient funds to settle financial transactions when due; or</li> <li>we will be forced to sell investments at a value which is less than face value; or</li> <li>we may be unable to settle or recover financial assets.</li> </ul>
<b>Credit Risk</b>	Includes the risk that a financial institution will not complete its obligations under a financial instrument and cause a financial loss.

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.

*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.

Council will comply with the following in regards 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'
    - (b) 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
  
- 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; and
  - (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 comply with s103 of the Local Government Act 2020
- 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 45% 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).

The criteria above should be applied to new investment opportunities using the Investment Decision Process flowchart attached to this policy.

### **Environmental Awareness**

Council resolved at its 27 January 2015 ordinary meeting to:

“...Explore and take up any opportunities to transfer Council investments consistent with the Investment Policy to financial institutions that do not fund fossil fuel developments”.

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 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, and
- Making investment decisions within the parameters of this policy.

Investment decisions relating to new investment opportunities must be referred to the Manager Finance or Chief Executive Officer for approval using the attached Investment Risk Assessment Form and Investment Decision Process. A register of investments shall be kept to identify the institutions where each investment is being held.

The Co-ordinator Financial Accounting is authorised to complete daily cash at call investment transfers at the Bank as an authorised bank account signatory.

### **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 and Council investment decisions change.

This approach recognises the types and levels of cash reserves that Council holds from time to time, opportunities to maximise ratepayer value, the investments that suit Council’s planned cash flow requirements and the importance of protecting ratepayer funds.

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 average level of cash and cash equivalents to be maintained;
- having readily accessible standby facilities and other funding arrangements 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.

Maximising the return on cash balances involves the investment of surplus cash balances after ensuring the preservation of capital and sufficient liquidity for operations.

### **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.

In the event that a broker is used to purchase an investment, Council officers will put in place an agreement with the broker requiring them to only sell investment products that are in compliance with the Policy requirements and disclose any conflicts and commissions.

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

- Convenient liquidity with withdrawals available on a maximum 35 days notice;
- No penalties, other than loss of interest rate for early conversion to cash;
- Have certainty regarding capital preservation with strong credit protection;
- Investment performance consistently above short-term interest rates;

#### *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 by the Co-ordinator Financial Accounting or Manager Finance on the Daily Cash Position summary prior to undertaking the funds transfer. The Daily Cash Position summary shall take account of all expected cash flows for the day.
3. Cash will be recalled daily to meet all cash requirements and minimise the likelihood of overdraft.
4. All written correspondence, including investment confirmation advice, between Surf Coast Shire and appointed investment brokers/institutions must be documented on file and forwarded to the Manager Finance. This will ensure that daily investment transfers conducted are monitored at a senior level.
5. An upper limit for long term investments will be set at the start of each financial year having regard to long term cash reserve requirements.

### **Risk Assessment**

Investment risk can be evaluated and minimised by providing a template for staff authorised to manage investments and conduct risk assessments for all new types of investment.

The Manager Finance is required to conduct a risk assessment of all current and proposed investment opportunities for each different type of investment product to be considered. The Investment Risk Assessment must be documented and signed by the Manager Finance prior to any investment decision being made.

The documented risk assessment will include:

- Type of investment product;
- Term of investment;
- Level and type of risk of investment;
- Any uncertainties on the rate of return;
- Risk Credit Rating;
- Where the funds are to be invested as authorised in the Local Government Act 1989
- If any, the time lag to convert the investment to cash; and
- Penalties associated with breaking the term of the investment.

The Investment Risk Assessment form and Investment Decision Process is attached to this Policy.

At least one staff member with relevant authority (who has not signed off on the Investment Risk Assessment form) should release the funds for investment. If an independent staff member is not available at the time of the investment, the Coordinator Financial Accounting or Financial Accountant will approve the release of funds and obtain evidence of a retrospective independent review of the transaction within two business days of the release of funds.

### **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 to Council

A report on Investment performance should be submitted to Council on a minimum quarterly basis via the Council's regular finance report. 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. In addition, the following should be noted:

- A register of investments will be maintained together with an investment file containing all correspondence from financial institutions relating to existing or new investments.
- This register will also track which investments are held with institutions that fund fossil fuel development
- Interest revenue will be recognised in the financial year that it is earned.
- 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.
- Any variations to this policy are to be reported to the Audit and Risk Committee within 60 days.

### 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

Investment Decision Process  
Investment Risk Assessment Form

### 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>

### Investment Decision Process

