

COUNCIL POLICY



Investment	Document No:	SCS-016
	Approval Date:	
	Approved By:	Council
	Review Date:	August 2018
Responsible Officer: Manager Finance	Trim Reference:	D15/59998
Authorising Officer: Chief Executive Officer		

1. 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.

2. 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.

3. Application

This policy applies to all Councillors, Committee members, employees and contractors of the Surf Coast Shire Council.

4. 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 60 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 they fall due; or • we will be forced to sell investments at a value which is less than what they are worth; 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.

Credit ratings (published by Standard & Poors Rating Services):

Short Term Ratings

- A-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 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

- AAA The obligator's capacity to meet its financial commitment on the obligation is EXTREMELY STRONG.
- AA The obligator's capacity to meet its financial commitment on the obligation is VERY STRONG.

5. 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 1989

S136 - Principles of Sound Financial Management, a Council must-

- (a) manage financial risks faced by the Council prudently, having regard to economic circumstances.

S143 - 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;
- (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.

- Investment Management Policy and Procedure
- Australian Accounting Standards

Investment Instruments approved by the Minister for the purposes of s143(f) of the Local Government Act are attached to this document.

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 s143 of the Local Government Act 1989
- 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 Standard & Poors Rating Services at all times:
 - Short Term Ratings
 - A-1
 - A-2
 - Long-term ratings
 - AAA
 - AA
- 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.

5.1 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.

5.2 Investment Management Responsibilities

The Manager Finance is authorised to manage Council's investment portfolio. This responsibility includes:

- Maximising return on Council's investment of credit funds,
- 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.

5.3 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; and
- only investing in financial instruments that are convertible to cash with a maximum 35 days notice
- 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.

5.4 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) 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.

5.5 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.

5.6 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. 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 Committee within 60 days.

6. 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

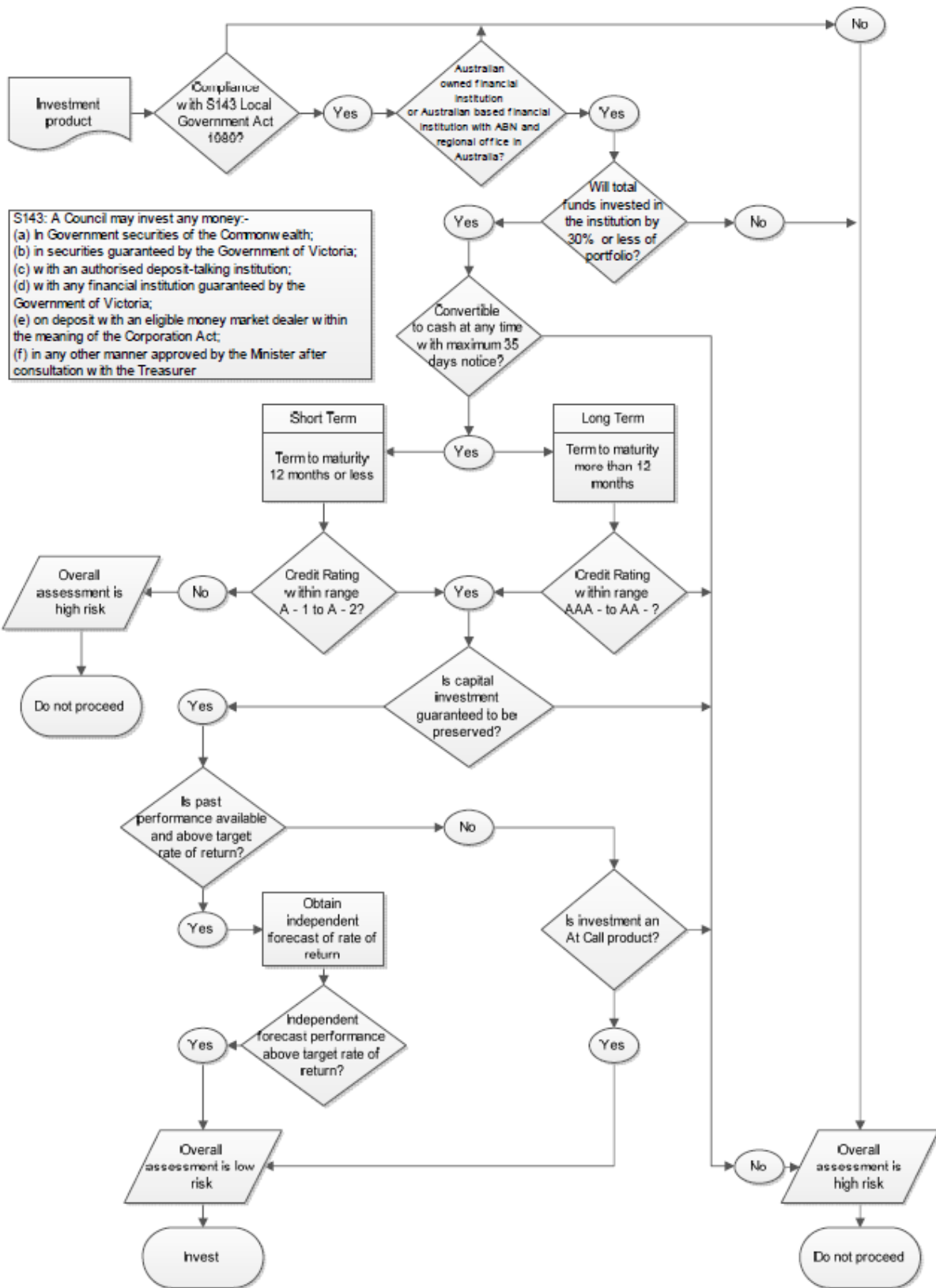
7. Attachments

Investment Decision Process

Investment Risk Assessment Form

Investment Instruments approved by the Minister for Local Government under s143(f) of the Local Government Act

Investment Decision Process



Investment Risk Assessment Form

1. Type of Investment Product

- (a) Name of Product?
- (b) Name of Investment provider?
- (c) Name of deposit-taking institution/organisation (where investment is deposited)?
- (d) Is this Investment Short Term (12 months or less) or Long Term (more than 12 months)?
- (e) Descriptive of type of investment?

2. Compliance with Legislation

- (a) Does the investment comply with Section 143 of the Local Government Act 1989? Yes/No
Tick a box

Yes No - Do not proceed

3. Term of Investment

- (a) Date investment matures?

4. Converting the Investment to Cash

- (a) Is the investment convertible to cash at any time with maximum 35 day notice period? Yes/No
Tick a box

Yes No - Do not proceed

- (b) If longer than 3 working days, how long does it take to convert the investment to cash?

5. Level and type of risk of investment

- (a) If short-term, is the investment Credit Rating within the range A-1 to A-2?
Tick a box

Yes No - Do not proceed

Rating

- (b) If long-term, is the investment Credit Rating within the range AAA- to AA-?
Tick a box

Yes No - Do not proceed

Rating

- (c) Is the Capital Investment amount guaranteed to be preserved at face value? Yes/No
Tick a box

Yes No - Do not proceed

If yes, who is providing the capital guarantee?

6. Uncertainties on the Rate of Return

(a) Is past performance above the target rate of return? Yes/No

Tick a box

Yes No/N/A – Go to Question 6(c)

If not applicable, why?

(b) Is an independent forecast of the rate of return available? Yes/No

Tick a box

Yes No – Go to Question 6(c)

If yes, who is providing the forecast?

(c) If answer to Question 6(a) is 'No' or 'N/A', is the investment an At Call product? Yes/No

Tick a box

Yes No - Do not proceed

7. Overall Risk Assessment

(a) Does application of the Investment Decision Process result in a decision to invest?

Tick a box

Yes No - Do not proceed

(b) Does the overall assessment reflect a low risk investment? (Answer to Question 7 (a) must be "Yes") Yes/No

Tick a box

Yes No - Do not proceed

8. Reasons for Recommendation

Provide a brief explanation for the selection of this institution and maturity date

.....

Dated: ___/___/___

Manager Finance

Investment Instruments approved by the Minister for Local Government under s143(f) of the Local Government Act



Department for Victorian Communities

1 Spring Street
Melbourne Victoria 3000
GPO 2392
Melbourne Victoria 3001
Telephone: (03) 9208 3333
Facsimile: (03) 9208 3680
www.dvc.vic.gov.au

Circular No. 14/2007

The Chief Executive Officer
All Councils and Regional Library Corporations
(As addressed)

Dear Sir/Madam

AUTHORISED INVESTMENTS – SECTION 143, LOCAL GOVERNMENT ACT 1989

I wish to advise that on 19 July 2007, the Minister for Local Government, the Hon. Richard Wynne MP, following consultation with the Treasurer, the Hon. John Brumby MP, approved a new form of investment as an authorised investment for the purposes of section 143(f) of the *Local Government Act 1989* (the Act). This approval was published in the Government Gazette of 26 July 2007, G30 (copy of approval attached).

The Minister has now approved the direct investment in fixed interest securities of the other Australian States and Territories subject to these securities being issued and guaranteed by a State or Territory Government and which have a credit rating equivalent to a Standard & Poor rating of AA or better as an authorised investment for the purposes of section 143(f) of the Act.

You will note that the power to invest in fixed interest securities of the other Australian State and Territories is not new. In 1998, these investments were similarly approved along with investments in shares in corporations listed on the Australian Stock Exchange (the ASX). However, under the 1998 approval, investments could only be made at arms length through a managed fund and only after a council had:

- lodged a report on financial and investment objectives and investment strategies under Section 6 of the Prudential Statement on Investment Powers of Councils dated February 1998; and
- received confirmation from the Department of Treasury and Finance that the council complies with the requirements of the Prudential Statement.

The approval of 19 July 2007 will enable councils to invest directly in fixed interest securities of the other Australian States and Territories. It should be noted however that investments in shares of a corporation listed on the ASX continue to be restricted consistent with the 1998 approval.

The new approval has provided the opportunity to remove previously authorised investments, which had, with the passage of time, become redundant.



The Minister's approval of 19 July 2007 therefore revokes all previously authorised general investments and restates those that continue to apply, including the new investments.

The Minister's approval of 19 July 2007 provides a single list of all investments authorised generally to apply to all councils and regional library corporations under section 143(f) of the Act.

Please feel free to contact Paul Rozario, Analyst Governance & Legislation on 9208 3611 or by e-mail at paul.rozario@dvc.vic.gov.au should you have any queries in relation to this matter.

Yours sincerely

A handwritten signature in black ink that reads "Prue Digby". The signature is written in a cursive, flowing style.

Prue Digby
Executive Director
Local Government, Employment and Adult Education

25 July 2007

Encl.

Local Government Act 1989

APPROVAL OF AUTHORISED MANNERS OF INVESTMENTS FOR THE PURPOSES OF SECTION 143(F) OF THE LOCAL GOVERNMENT ACT 1989

I, Richard Wynne MP, Minister for Local Government, pursuant to section 143(f) of the *Local Government Act 1989* (the Act), hereby revoke all investments previously authorised generally to apply to all councils and regional library corporations under this provision.

Pursuant to section 143(f) of the Act, I authorise as approved manners of investment to apply generally to all councils and regional library corporations:

1. *Certificates of Deposit and Bills of Exchange*

- (a) a certificate of deposit, whether negotiable, convertible or otherwise, issued by an authorised deposit taking institution as defined by section 3 of the *Trustee Act 1958*;
- (b) a bill of exchange which at the time of acquisition has a maturity date of not more than 200 days and which if purchased for value confers on the holder in due course a right of recourse against an authorised deposit taking institution, as defined by section 3 of the *Trustee Act 1958*, as the acceptor or endorser of the bill for an amount equal to the face value of the bill.

2. *Investments in the Treasury Corporation of Victoria.*

3. *Investment in managed investment schemes*

Investments in managed investment schemes which:

- have a rating of AAm or a rating of AAf from Standard and Poors Australian Ratings;
- are registered under section 601EB of the *Corporations Law 2001* (Commonwealth); and
- are liquid within the meaning of section 601KA(4) of the *Corporations Law 2001* (Commonwealth) and have a constitution that provides for members to withdraw from the scheme.

4. *Fixed interest securities of an Australian Authorised Deposit Taking Institution and Shares listed on the Australian Stock Exchange*

Investments in:

1. fixed interest securities of or guaranteed by an Australian authorised deposit taking institution; and
2. shares of a corporation listed on the Australian Stock Exchange.

Investments in fixed interest securities of an Australian authorised deposit taking institution and shares listed on the Australian Stock Exchange are subject to the following terms and conditions

Terms and Conditions

These investment powers may only be used by councils which have:

- [a] lodged a report on financial and investment objectives and investment strategies under Section 6 of the Prudential Statement on Investment Powers of Councils dated February 1998; and
- [b] received confirmation from the Department of Treasury and Finance that the council complies with the requirements of the Prudential Statement.

Investments must not be made directly but only through trust vehicles managed by the Victorian Funds Management Corporation or a private sector fund manager with specialist expertise in investment.

5. *Fixed interest securities of the Australian States and Territories*

Investments in the fixed interest securities of the other Australian States and Territories subject to these securities being:

- issued and guaranteed by a State or Territory Government; and
- which have a credit rating equivalent to a Standard & Poor rating of AA or better.

Dated 19 July 2007

RICHARD WYNNE MP
Minister for Local Government