



Investment Policy

Purpose

This policy establishes the basis for the investment of Council's surplus funds with consideration of risk and at the most favourable rate of interest available to it at the time, for that investment type, while ensuring that its liquidity requirements are met.

The policy is also designed to provide guidelines for the safeguard Council's cash assets, and meet Council's objectives in generating maximum value to ratepayers.

Scope

This policy applies to investments made by Council Officers (Finance) in accordance with the requirements of Section 143 of the *Local Government Act 1989* (the Act).

Legislative context

Local Government Act 1989 section 143

Related policies and documents

Procurement Policy

Policy principles

This policy affirms section 143 - (Investments) of the *Local Government Act 1989* (as amended) and enhances the legislative requirements by providing additional guidelines in managing Council's investment activities of its surplus funds. Council's objective is to maintain the purchasing power of the surplus funds that will be required to fund projects in the future.

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

Policy detail

In addition to the statutory investment directives, the following requirements are also to be met:

- Maximise the return on funds, taking into account the need to provide payments out of investment funds on a timely basis. Adequate funds should be retained in the current account to meet daily cash flow requirements.
- Preservation of capital with investments performed in a manner that ensures security and safeguards the investment portfolio including managing credit, security and interest rate risk.
- A minimum of three quotes will be sought from approved financial institutions before investing or re-investing funds.
- All quoted interest rates and actions taken are to be recorded.
- An evaluation of future cash flow needs and investment strategies are to be undertaken bi-monthly.
- The best possible investment rate will then be used subject to limits outlined in Table 1. These limits apply at the time of investment.
- Table 1 provides the guidelines for investment based on the credit rating with regard to the amount invested with any one financial institution, the term to maturity and the total funds invested.
- When placing investments, consideration should be given to the relationship between credit rating and interest rate.
- If 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 are to be divested as soon as practicable or at maturity.
- If a different level of rating for the Short Term and Long Term Rating of a financial institution is applied by one of the Rating Agencies, the lower of the ratings will be utilised by Council in assessing the rating of that financial institution for investment purposes.
- Council will promote the local community by investing with local community banks and credit unions located in Baw Baw Shire by way of negotiable certificates of deposit.

Table 1

Short-term Rating		Long-term Rating		Maximum Percentage of Total Funds With One Financial Institution	Maximum Term to Maturity (months)	Maximum Percentage of Total Investments
Standard & Poor's	Moody's	Standard & Poor's	Moody's			
A1+	P1	AAA – AA-	AAA – AA3	40%	12	100%
A1	P1	A+ – A	A1 – A2	30%	12	60%
A2	P2	A- – BBB+	A3 – BAA1	20% *	12	20%
A3	P3	BBB – BBB-	BAA2 – BAA3	10%	12	10%

* The Bendigo Bank Community Banks and credit unions hold a lower credit rating. The maximum of 20% investment limit reflects the Council commitment to support the Community Banks and Credit Unions within the Shire.

PROHIBITED INVESTMENTS

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

- Derivative based instruments.
- Principal only investment or securities that provide potentially nil or negative cashflow.
- Stand alone securities issued that have underlying futures, options, forward contracts and swaps of any kind.
- Prohibits the use of leveraging (borrowing to invest) of an investment.

MINIMISE COSTS

- The offset balance of Council's linked bank accounts, where possible, should be retained in positive funds.
- Maximum return from investment is sought by retaining a minimum balance once current cash flow commitments are met.
- Short term cash requirements are to be invested in an "at call" account with Council's transactional banker.
- The balance of funds considered to be surplus to Council's immediate cash requirements will be invested in accordance with the guidelines in this policy.

REPORTS

A quarterly report is produced showing:

- The breakup of investments into “at call funds”, “short term funds” (up to six months) and “managed funds” (over six months)
- Details of percentage exposure of the portfolio comparing actual investments held with investment policy limits
- Details of actual investment interest against benchmarks for each category.

Types of Investment Benchmarks

- Cash / ‘At Call’-At Call Account Indicative Cash Rate
- ‘Short Term’ - AusBond Bank Bill Index
- Managed Funds - AusBond Composite 0+yr Index

At call account indicative cash rate can be sourced from Council’s transactional bank. Short term and managed funds benchmarks can be sourced from relevant websites.

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