

COUNCIL POLICY

Investment of Available Funds	Adopted By Council:	19/11/08	
	Date/s Revised:	18/10/11, 18/12/13, 23/07/14, 17/12/14, 01/03/18, 28/07/21, 26/06/24	
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	Document No:	CP011	
	Directorate:	Finance and ICT Services	
	Responsible Officer:	Manager, Finance and ICT Services	

CONTEXT

Council holds an average of \$1million in Council's general bank account, to manage short-term cash flow requirements, with the balance invested in Approved Deposit Taking Institutions (ADI) as required by this policy.

Council budgets a conservative level of interest earnings on the investment of available funds, based on average funds held during the year and estimated interest rates

PURPOSE

The purpose of this policy is to provide guidance on the following aspects:

- To maximise return on Council funds with a systematic approach while maintaining an acceptable level of risk.
- To ensure Council's investments are made in accordance with section 103 of the Local Government Act 2020, and any relevant federal legislation.
- To establish a formal policy that provides guidelines for making decisions with respect to Council funds.
- To ensure Council has sufficient levels of funds available to service its commitments as and when they fall due.

In order to meet the above objectives the following matters need to be considered:

DEFINITIONS

Ethical Investment: Investments that recognise the good practice of institutions in social, environmental and economic impact

Standard and Poor's Rating: The credit rating applied by Standard and Poor's, a leader of financial-market intelligence

Moody's Investor Services: A credit rating and research company

Investment Officers Members of Council staff who hold the position of Chief Executive Officer; Manager, Financial & ICT Services; Financial Services Coordinator

POLICY

All Council investment will occur consistent with the following principles:

- Transparency

- Accountability
- Ethical Investment
- Effective returns
- Risk minimisation

In order to meet the above principles the following matters must be considered:

1. Risk

In order to protect the principal amount of council investments, funds in excess of \$500,000 will only be invested with institutions/products that maintain a minimum Standard and Poor's rating of **A for long term investments** and **A2 for short term investments** (or Moody's Investor Services equivalents) subject to the limits specified in section 5 of this policy.

Standard & Poor's Ratings

The difference between short term and long term depends on the investment market. For the investment market it is reasonable to consider short term to mean anything less than 365 days.

Short Term

- A1+** Extremely strong capacity to pay
- A1** Strong capacity to pay
- A2** Satisfactory capacity to pay
- A3** Adequate capacity to pay
- B** Speculative
- C** Currently vulnerable to non-payment
- D** Payment on an obligation due date is not made

Long Term

- AAA** Extremely strong capacity to pay
- AA** Very strong capacity to pay
- A** Strong capacity to pay
- BBB** Adequate capacity to pay
- BB** Uncertainties or adverse conditions could lead to inadequate capacity to pay
- B** Adverse conditions likely to impair capacity to pay
- CC** Vulnerable to default
- C** High risk to default
- D** Default

2. Returns

Council will optimise the return on funds invested, subject to an acceptable level of risk. The return objectives are to ensure investment returns are to be equivalent to at least the average daily cash rate for the year.

Interest rate quotes must be requested from **a minimum of three approved financial institutions** subject to the exiting exposure limits, for every investment or an explanation documented as to why 3 were not available. Each financial institution will be given only one opportunity to quote per investment round and it will be assumed that each institution's first-rate offer is their best offer.

The Financial Accountant will obtain quotes and make recommendations with respect to all investment decisions (including in which financial institution new investment funds will be placed, and existing funds to be re-invested for a further period) for review and sign off by the Investment Officers.

Where investment quotations meet all Policy criteria, the quote offering the highest return to Council should be accepted, subject to exposure and mix of investment considerations. In the event of quotes being equal, preference is given to local banking service providers.

3. Period of Investment

The period of investment shall be determined following consideration of Council's cash flow requirements.

For the purposes of this policy short-term investments will be for a period of no longer than 12 months. All investments greater than 12 months will be considered long-term.

Some investments may be influenced by specific regulations or Council policy where Council is obliged to cash back a specific reserve. In this instance, Council shall consider when these specific funds are likely to be called upon and invest accordingly.

For the purposes of reporting in line with the Local Government Model Financial Report, which is used by Council in completing the annual financial statements, short term investments are further classified into those which are held in short term deposits of less than or equal to 90 days, and those with maturities between 4–12 months. Quarterly rate instalments provide a high degree of predictability in terms of ensuring Council is able to meet its short-term cash obligations from its short-term cash inflows.

4. Type of Investment

As per the section 103 of the Local Government Act 2020, a Council could invest any money:

- in Government securities of the Commonwealth; and
- in securities guaranteed by the Government of Victoria; and
- with an ADI; and
- with any financial institution guaranteed by the Government of Victoria; and
- on deposit with an eligible money market dealer within the meaning of the Corporations Act; and
- 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.

However, to achieve an optimum risk and return trade off, Council shall only invest with Australian owned Banks, Credit Unions and Building Societies which are Approved Deposit Taking Institutions (ADI) and shall not invest with organisations that do not meet the ADI requirements.

Investments with ADIs are guaranteed to \$250,000 under the Australian government's Financial Claims Scheme.

5. Diversity

Council should diversify investments into a number of types or with a number of institutions, where equivalent returns can be achieved. If equivalent returns are not available, diversification should not be undertaken at the expense of returns achieved.

Investment Officers are authorised to invest excess funds at a minimum deposit level of \$250,000 and to a maximum of \$500,000 with any Australian owned ADI in accordance with the Schedule of Delegations

which accompanies Council's Procurement Policy. Amounts below \$250,000 are held with Council's general banking service provider. This is aimed at maximising the interest rate achieved on Council's investment.

Council's investments in excess of \$500,000 with any ADI shall be spread the following way as a minimum:

Short Term

Minimum Standard and Poor's rating (or Moodys Investor Services equivalents)	Maximum Exposure to a single ADI (of totals funds available for investment)
A-1+ (Extremely strong capacity to pay)	30%
A-1 (Strong capacity to pay)	25%
A-2 (Satisfactory capacity to pay)	20%

Long Term

Minimum Standard and Poor's rating (or Moodys Investor Services equivalents)	Maximum Exposure to a single ADI (of totals funds available for investment)
AAA (Extremely strong capacity to pay)	20%
AA (Very strong capacity to pay)	15%
A (Strong capacity to pay)	10%

Total exposure to a single ADI shall not exceed maximum exposure specified for short term investments.

6. Investments with Treasury Corporation Victorria (TCV)

The Borough of Queenscliffe has been granted approval as a participating authority under the Treasury Corporation of Victoria Act 1992. Participating authorities collaborate with TCV to oversee financial matters, ensuring stability and implementing prudent risk management measures for the State of Victoria.

As a participating authority, the Council is enabled to place term deposits and overnight deposits at competitive rates with TCV. Investments made with TCV are guaranteed in full by the Treasurer under the Borrowing and Investment Powers Act (1987), and there are no imposed limits or caps on such investments.

The Council intends to utilise the overnight deposit option to maximise returns on cash held for operational purposes. However, the decision to invest in term deposits with the treasury corporation will be guided by the competitiveness of the rates offered by TVC compared to those provided by ADIs.

To maximise the Council's investment returns, Council will limit the total investments in term deposits with TVC to 50% of the available funds for investments. Within this framework, funds can only be transferred between the TVC and the Council's operating bank account.

7. Delegation of Authority

Authority for implementation of this Policy is delegated by the Council to the Chief Executive Officer. Authority for the day-to-day management of Council's investment portfolio is to be delegated by the Chief Executive Officer to the Manager, Finance and ICT Services and to the Financial Services Coordinator (in the absence of the Manager, Finance and ICT Services).

The ability to direct selected ADIs to invest surplus funds (authorised signatories for ADIs) on behalf of the Council must adhere to the requirements outlined in the Council's schedule of financial delegations.

The Financial Accountant will arrange investments by obtaining quotes and making recommendations on all investment decisions for sign off by authorised Investment Officers, will be responsible for preparing quarterly reconciliations of all cash and investments for review by the Manager, Finance and ICT Services or the Financial Services Coordinator and will ensure appropriate storage of all investment quotes, documentation and decisions for review by external auditors.

8. Internal Controls

To minimise the potential for investment risk and unauthorised appropriation of Council funds, the following internal controls will apply:

- All placement of new investments must to be authorised by any two of the authorised signatories in line with Council's financial delegations;
- The Investment authorisation process must be carried out in accordance with any other relevant policies and procedures;
- All documentation relating to investments must be obtained and stored as per Council's records management processes; and
- Quarterly investment reconciliations, which include a reconciliation of investment funds placed and redeemed and associated interest earned on the investment of available funds, must be completed by the Financial Accountant for review by the Manager, Financial and ICT Services.

9. Reporting

Investments and investment performance are to be reported to Council as part of each quarterly financial report, noting a copy of the reports is included in the agenda of Audit and Risk Committee meetings.

A register of investments must be maintained by Officers, together with an investment file containing all letters of advice from financial institutions.

The Investment Register shall include:

- Investment date.
- Type of investment.
- Maturity date.
- Period of investment.
- Financial institution.
- Amount invested.
- Interest rate.
- Interest received.
- Compliance with Policy noted and checked

TRAINING AND/OR COMMUNICATION

This policy will be communicated and training provided to Officers directly involved with the process.

CONTINUOUS IMPROVEMENT

This policy will be reviewed as a minimum every three years from the date of adoption, and as required.

OTHER REFERENCES

Local Government Act 2020

Australian Government Financial Claims Scheme (FCS)

Treasury Corporation of Victoria Act 1992

Borrowing and Investment Powers Act 1987

END