



# Council Policy Manual

## WEST WIMMERA SHIRE COUNCIL

### COUNCIL POLICY

<b>INVESTMENT POLICY</b>	Policy No:	
	Adopted by Council:	18 June 2020
	Next review date:	June 2023

Senior Manager:	Director Corporate & Community Services
Responsible Officer:	Finance Coordinator
Functional Area:	Financial Services

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Introduction & Background	<p>Consistent with Section 101 of the <i>Local Government Act 2020</i> (the Act), Council will implement an investment policy within the guiding principles of sound financial management.</p> <p>Council will utilise its investment portfolio as a strategic tool of overall financial management.</p> <p>There are some basic considerations that should be addressed for all investment decisions:</p> <ul style="list-style-type: none"> <li>• Cash flow</li> <li>• Credit Rating of Institution</li> <li>• Existence of Guarantee and Security</li> <li>• Interest Rate</li> <li>• Term of investment</li> </ul> <p>Prior to seeking investment options Council must consider its cash position and its future outgoings, including creditor payments, payroll and other liabilities against incoming monies such as rates, grants and cash contributions.</p> <p>If it is deemed that Council will have excess funds for a sufficient period of time to invest (minimum 30 days) then funds may be invested to maximise return.</p>
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Purpose & Objectives	<p>The purpose of this policy is to set the guidelines to be used by Council Officers when making decisions about investment activities of the Council. Any decision must comply with current legislation &amp; policy.</p> <p>Council investments must comply with all restrictions specified under Section 103 of the Act. Council also 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.</p> <p>The objectives of this policy, in order of importance, are:</p> <ul style="list-style-type: none"> <li>• <b>Preservation of capital:</b> safety of capital is a dominant consideration in all investment decisions including managing credit and interest rate</li> </ul>
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	<p>risk within identified thresholds and parameters;</p> <ul style="list-style-type: none"> <li>• <b>Ensuring sufficient liquidity is maintained:</b> any investment must be made bearing in mind Council's future cash needs to meet all its obligations;</li> <li>• <b>Maximising the return on cash:</b> to maximise earnings from authorised investments.</li> </ul> <p>It is also important to emphasise that the general understanding is that all Council's investments are entered into with the intention to be held to maturity to avoid any potential penalty receipts or payments.</p>
<b>Policy Details</b>	
1.	<p><b>Scope</b></p> <p>This policy applies to all short, medium and long term investments made by West Wimmera Shire Council.</p> <p>This policy does not apply to operating accounts held with financial institutions, or to the provision of credit or loans of any nature.</p>
2.	<p><b>Legislative Requirements</b></p> <p>All investments are to comply with the investment powers of Council as defined under Section 103 of the Act and the reporting requirements of the Australian Accounting Standards.</p> <p>At the time of writing this policy, under the Act, a Council may invest any money:</p> <ol style="list-style-type: none"> <li>a) in Government securities of the Commonwealth;</li> <li>b) in securities guaranteed by the Government of Victoria;</li> <li>c) with an ADI (authorised deposit-taking institution);</li> <li>d) with any financial institution guaranteed by the Government of Victoria;</li> <li>e) on deposit with an eligible money market dealer within the meaning of the <i>Corporations Act 2001</i>; and</li> <li>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.</li> </ol> <p>Investment instruments approved by the Minister for the purposes of Section 103(f) of the Act are attached to this document.</p>
3.	<p><b>Delegation of Authority</b></p> <p>Authority for implementation of the Investment Policy is delegated by Council to the Chief Executive Officer (CEO) in accordance with the Act.</p> <p>The authority for the day-to-day management of Council's investment portfolio is delegated by the CEO to the Finance Coordinator, and subject to review with the CEO and the Director Corporate &amp; Community Services.</p> <p>The day-to-day operations of daily cash monitoring and associated investment activities are performed by the Senior Financial Services Officer under the supervision of the</p>



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	<p>Finance Coordinator.</p> <p>The Finance Coordinator is the organisation's Chief Financial Officer.</p>										
4.	<p>Ethics and Conflicts of Interest</p> <p>Officers shall refrain from personal activities that would conflict with the proper execution and management of Council's investment portfolio.</p> <p>This includes activities that would impair the investment officer's ability to make impartial decisions.</p> <p>This policy requires officers to disclose any conflict of interest to the CEO.</p>										
5.	<p>Approved Investment Types</p> <p>Without approval from Council, investments will be limited to:</p> <ul style="list-style-type: none"> <li>• Negotiable Certificate of Deposits (NCD),</li> <li>• Bank Bills (BB),</li> <li>• Term Deposits (TD),</li> <li>• State/Commonwealth Government Bonds, and</li> <li>• Floating Rate Notes (FRN).</li> </ul> <p>(for a detailed explanation of each refer Appendix A)</p>										
6.	<p>Risk Management Guidelines</p> <p>Investments obtained are to comply with the following:</p> <p>A. Quotations on Investments</p> <p>No less than three (3) quotations shall be obtained from authorised institutions when an investment is proposed. Quotations include utilising rates promoted by institutions and brokers.</p> <p>B. Diversification – Credit Restrictions</p> <p>The total amount invested with any institution other than the “big four” banks (ANZ, Commonwealth Bank, National Australia Bank and Westpac), at any time, should not exceed more than 75% of Council's portfolio.</p> <p>Amounts invested, at any time, should not exceed the following percentages of Councils' portfolio:</p> <table style="margin-left: 40px;"> <thead> <tr> <th>Short Term Ratings</th> <th>Maximum Percentage of</th> </tr> <tr> <th>Total (Standards &amp; Poor's)*</th> <th>Investments</th> </tr> </thead> <tbody> <tr> <td>A1+</td> <td>Up to 100%</td> </tr> <tr> <td>A1</td> <td>Up to 100%</td> </tr> <tr> <td>A2</td> <td>Up to 75%</td> </tr> </tbody> </table>	Short Term Ratings	Maximum Percentage of	Total (Standards & Poor's)*	Investments	A1+	Up to 100%	A1	Up to 100%	A2	Up to 75%
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	<p style="text-align: center;">*Refer Appendix C for definitions of credit ratings</p> <p>Council should access the Standard &amp; Poor's website for an up to date list of Short Term credit ratings of all institutions.</p> <p>If any investments are downgraded such that they no longer fall within the investment policy, they will be divested as soon as practicable.</p> <p>C. Term of Investments</p> <p>Investments should be made weighing risk and future cash needs to meet Council obligations and returns. If a period longer than twelve months seems appropriate for a general-purpose investment, approval should be sought from the Finance Coordinator.</p> <p>For specific purpose investments (e.g. Deposits held by Council) longer periods could be pursued to obtain a better return, since those funds are part of Council's restricted assets and not required in the short term.</p>
<p>7.</p>	<p>Investment Register</p> <hr/> <p>An investment Register will be maintained, updated and reconciled to the ledger by the Senior Financial Services Officer each month.</p> <p>The Investment Register must include:</p> <ul style="list-style-type: none"> <li>• Investment date</li> <li>• Type of investment</li> <li>• Maturity date</li> <li>• Term of investment</li> <li>• Financial institution</li> <li>• Amount invested</li> <li>• Interest rate</li> <li>• Interest received</li> </ul>
<p>8.</p>	<p>Internal Controls</p> <hr/> <p>The Finance Coordinator shall establish internal controls and processes that will ensure investment objectives are met and the investment portfolio is protected from loss, theft or inappropriate use.</p> <p>To this end, the Finance Coordinator shall ensure that Officers responsible for the day-to-day investment activities:</p> <ul style="list-style-type: none"> <li>• operate within legislative framework and the guidelines of Council's investment policy</li> <li>• establish, document and maintain internal procedures</li> <li>• are sufficiently resourced to enable the separation of duties for approved authority, execution of transactions and reporting</li> </ul> <p>These controls should be reviewed annually or upon any extraordinary event, i.e.</p>



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	turnover of key personnel, the discovery of any inappropriate activity, market movement or financial institutional collapse.
9.	<p>Review and Authority of Policy</p> <p>The investment policy should be amended to reflect any changes to the Act when they occur.</p> <p>The policy will be reviewed every three years, or earlier as appropriate.</p>
10.	<p>Appendix A – Investment Type Definitions</p> <p><b><u>Cash: Short Term Instrument</u></b></p> <p>Funds are invested on overnight deposit up until 4pm each business day or in an at call account.</p> <p><b><i>Benefits:</i></b></p> <p>Ready access No fees.</p> <p><b><u>Commercial Bill – Bank Bills (BB): Short Term Instrument</u></b></p> <p>Commercial Bank Bills are highly negotiable products, which are sold at a discount to their face value. The relevant bank/acceptor undertakes to pay the investor the face value upon maturity. Bank bills in general offer a higher rate of return than bank deposits.</p> <p><b><i>Benefits:</i></b></p> <p>Highly liquid Able to be redeemed at any time by selling back to the bank</p> <p><b><u>Negotiable Certificate of Deposits (NCD): Short Term Instrument</u></b></p> <p>An alternative product to a Bank Bill is a Negotiable Certificate of Deposit (NCD). These have the same features as a Bank Bill; however a NCD can be issued to a specific maturity date, therefore providing further flexibility.</p> <p><b><i>Benefits:</i></b></p> <p>Wide range of maturity dates available. Able to be redeemed at any time by selling back to the bank</p> <p><b><u>Term Deposit (TD): Short Term Instrument</u></b></p> <p>One of the most common types of investments, Term Deposits are offered by all Banks and are competitive, usually carrying a fixed interest rate.</p> <p><b><i>Benefits:</i></b></p> <p>Wide range of maturity dates available. Easy to plan and budget for.</p>



### **Floating Rate Notes (FRN): Long Term Instrument**

Floating rate notes are available for terms of 1-3 years with regular coupons (usually quarterly). The interest rate is set at the beginning of the period and is paid in arrears. It is normally set at a margin above the 90 day Bank Bill Swap rate (BBSW).

#### ***Benefits:***

Offer a rate of return higher than bank bills, and is determined by the credit quality of the issuer.

### **Fixed Rate Notes: Long Term Instrument**

This product is most useful if it is initiated before interest rates begin to fall. The coupon payment is typically set close to the prevailing interest rate for the applicable maturity at the time of issue.

#### ***Benefits:***

Able to protect against falling Interest Rates

### **Transferable Investment Certificate (TIC): Long Term Instrument**

An investment agreement in the form of a transferable bearer certificate evidencing the holder's beneficial ownership of the underlying bearer security. The TIC is a product specially designed for investors who require a secure, flexible and liquid investment with opportunities for high yields

#### ***Benefits:***

Able to protect against falling Interest Rates

### **Government and Semi Government Bonds: Long Term Instrument**

Long dated maturities with a sovereign debt rating. Considered to be the most resilient investments in regards to adverse market movements. As a result of the extremely high credit ratings, these bonds have a low return in terms of yield.

#### ***Benefits:***

Most resilient investment in times of duress

### **Cash: Long Term Instrument**

Long dated maturities with a sovereign debt rating. Considered to be the most resilient investments in regards to adverse market movements. As a result of the extremely high credit ratings, these bonds have a low return in terms of yield.

#### ***Benefits:***

Most resilient investment in times of duress



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11.	<p>Appendix B – Standard and Poor’s Credit Rating Levels</p> <p>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.</p> <p><b>Short Term</b></p> <p><b>A-1</b> - Strong capacity to meet financial commitments.</p> <p><b>A-2</b> - Satisfactory capacity to meet financial commitments, but somewhat susceptible to adverse economic conditions and changes in circumstances.</p> <p><b>A-3</b> - Adequate capacity to meet financial commitments.</p> <p><b>B</b> – Vulnerable and significant speculative characteristics.</p> <p><b>C</b> - Currently vulnerable to non-payment.</p> <p><b>R</b> - Under regulatory supervision owing to its financial condition.</p> <p><b>SD and D</b> – Failed to pay one or more of its financial obligations.</p> <p><b>NR</b> – Not rated.</p> <p><b>Long Term</b></p> <p><b>AAA</b> – Extremely strong capacity to meet financial commitments.</p> <p><b>AA</b> - Very strong capacity to meet financial commitments.</p> <p><b>A</b> - Strong capacity to meet financial commitments, but somewhat susceptible to adverse economic conditions and changes in circumstances.</p> <p><b>BBB</b> - Adequate capacity to meet financial commitments, but more subject to adverse economic conditions.</p> <p><b>BB, B, CCC, CC and C</b> – Obligations rated 'BB', 'B', 'CCC', 'CC', and 'C' are regarded as having significant speculative characteristics. 'BB' indicates the least degree of speculation and 'C' the highest. While such obligations will likely have some quality and protective characteristics, these may be outweighed by large uncertainties or major exposure to adverse conditions.</p> <p><b>D</b> – Default or in breach of imputed promise.</p> <p>The ratings from 'AA' to 'CCC' may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories.</p> <p>Up to date and detailed information regarding Standard &amp; Poor’s credit ratings and definitions is available via the following website: <a href="http://www.standardandpoors.com">http://www.standardandpoors.com</a>.</p>
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<b>Policy Adopted:</b>	Ordinary Meeting 21/02/13		RecFind 13/000759
<b>Policy Reviewed:</b>	Ordinary Meeting 18/06/15	Minute Book Page 30667	RecFind 15/002501
	Ordinary Meeting 21/02/18	Minute Book Page 37597	RecFind 18/000628
	Council Meeting 18/06/20	Minute Book Page.....	RecFind E20/000150