



# Investment Policy 2018

## TABLE OF CONTENTS

<b>Purpose</b> .....	<b>3</b>
<b>Scope</b> .....	<b>3</b>
<b>Policy Statement</b> .....	<b>3</b>
<b>Investment Framework</b> .....	<b>3</b>
<b>Roles and Responsibilities</b> .....	<b>6</b>
<b>References and Supporting Documents</b> .....	<b>6</b>
<b>Privacy and Human Rights Consideration</b> .....	<b>6</b>
<b>Definitions</b> .....	<b>7</b>
<b>Supporting procedures / guidelines</b> .....	<b>7</b>
<b>Procedure</b> .....	<b>7</b>
<b>Revision History and Review</b> .....	<b>9</b>

## Purpose

To provide a framework to ensure Council optimises its return on investment of surplus funds, while mitigating its exposure to risk.

The policy objectives are to ensure that:

- Investment decisions are based on the security of funds by limiting unnecessary exposure to risk
- Return on surplus funds is maximised through prudent investment while limiting unnecessary exposure to risk
- Sufficient funds are available to meet daily operational cash requirements
- All Council investments comply with section 143 of the *Local Government Act 1989* and relevant regulations and Ministerial Guidelines
- Effective internal controls exist to minimise the risk of misappropriation of Council funds
- All investment transactions are appropriately authorised and documented

## Scope

This policy applies to the investment of all funds held by East Gippsland Shire Council, including Bonds, Retentions, Specific Reserves and funds held in trust.

## Policy Statement

The investment of Council's surplus funds and cash management will comply with the following conditions and Investment Framework.

Council's cash management and investments must also comply with:

- Sections 136 and 143 of the *Local Government Act 1989*
- Australian Accounting Standards
- Ministerial Guidelines.

### Investment Framework

All investments must comply with the following framework. Percentage limits adopted within each of these frameworks are based on Council's total investment portfolio balance.

- **Portfolio Credit Framework**

The maximum percentage of total funds that can be invested in each rating category at any one time is as follows:

Portfolio Credit Framework		
Long Term Rating	Short Term Ratings	Maximum Percentage of Portfolio
AAA to AA-	A1+	100%
A+ to A-	A1	80%
BBB+ to BBB-	A2	50%

(e.g. A maximum of 80% of total investments can be in A1 rated institutions.)

- **Financial Institution Framework**

Financial Institutions will be restricted by their credit rating so that single entity exposure is limited to a maximum percentage of the total funds as detailed below:

Financial Institution Framework		
Long Term Rating	Short Term Ratings	Maximum Percentage of Portfolio
AAA to AA-	A1+	50%
A+ to A-	A1	30%
BBB+ to BBB-	A2	20%

(e.g. A maximum of 50% of total investments can be held by an institution with an A1+ rating)

- **Term to Maturity Framework**

The investment portfolio is to be invested within the following terms to maturity constraints. The percentages represent the maximum percentage of total funds invested for each maturity term by each rating classification.

Term to Maturity Framework					
Long Rating	Term	Short Term Ratings	Short Term (0-6 months)	Medium Term (6-12 months)	Long Term (1-5 years)
AAA to AA-		A1+	100%	70%	20%
A+ to A-		A1	80%	50%	15%
BBB+ to BBB-		A2	60%	30%	10%

(e.g. If 100% of total investments of \$10 million was with A1+ rated institutions then a maximum of \$2 million could be invested for a period greater than 1 year, a maximum of \$7 million for 6-12 months and the balance of \$1 million would be invested for 0-6 months).

When assessing the term of investments, especially with regard to long term investments, Council's short and medium-term forecast cash requirements should also be considered to ensure that Council has sufficient funds to meet day to day cash requirements and cash reserves are available to help cover unforeseen events.

- **Currency**

Investments to be denominated in Australian dollars.

- **Authorised Investments**

All funds must be invested with an Australian Prudential Regulatory Authority (APRA) Authorised Deposit Taking Institution (ADI) and comply with section 143 of the *Local Government Act 1989*.

Council endorses the following investment types:

- Bank accepted / endorsed bank bills
- Bank negotiable certificates of deposit
- Bank interest bearing deposits
- Authorised deposit taking institutions
- Government securities of the Commonwealth
- Securities guaranteed by the Victorian Government

- **Change in Credit Rating**

In the event of the Standard and Poor's credit rating of one of Council's investments being downgraded such that it no longer falls within the investment policy guidelines, it will be divested at maturity or immediately, whichever is deemed most appropriate by Director Corporate.

- **Cash Management**

For day-to-day cash management purposes, Council must have cash liquid investments of at least \$1,000,000 available at any time. Liquid investments comprise:

- Overnight cash deposits with authorised financial institutions that must be banks; and
- Bank bills endorsed or accepted by authorised financial institutions that must be banks.

Funds available for investment will be determined following a review of expected future cash flows taking into consideration the timing of future investment maturities.

- **Shares**

Trading in shares is not an approved investment option. However, Council may hold shares in associated entities as part of its long-term investment portfolio, as approved by the Chief Executive Officer.

- **Investment Approval**

A minimum of three quotations must be sought from approved financial institutions before investing or reinvesting funds.

- **Managed Funds**

Council will not invest in Managed Funds.

- **Investment in Locally Based Financial Institutions**

From time to time a decision may be made to invest in an institution that is based locally, irrespective of return, in the interests of assisting viability and economic development of the small communities located in the East Gippsland Shire. Any such decision must be approved by the Chief Executive Officer.

## Roles and Responsibilities

These management positions are responsible for the implementation, communication and compliance monitoring of the policy in their work areas:

Party / Parties	Roles and Responsibilities
<b>Audit and Risk Committee</b>	Review Investment Policy and investment reports and provide recommendations as appropriate to Council and Council officers.
<b>Director Corporate</b>	Overall responsibility for policy implementation. Approve actions as a result of changes in credit rating.
<b>Executive Manager Finance</b>	Responsible for the review, regular updating and implementation of the policy and reporting to Executive Group, Audit and Risk Committee and Council. Approval of placement of funds in accordance with the Instrument of Delegation Chief Executive Officer to staff.
<b>Financial Services Coordinator</b>	Responsible for the daily monitoring of cash and investments and for meeting the requirements of this policy. Monitor investment credit ratings and report to Executive Manager Finance and Director Corporate.
<b>Senior Finance Officer</b>	Day to day management of investment funds.

## References and Supporting Documents

Council Plan 2017-2020 – Strategic Objective

- Good Governance Goal 3 Council is in a strong financial position and can provide for future generations of East Gippslanders.

Standard and Poor's Credit Ratings: [www.standardandpoors.com/home/en/au](http://www.standardandpoors.com/home/en/au)

Australian Accounting Standards.

Ministerial Guidelines.

### Relevant Legislation:

- *Local Government Act 1989* (sections 136 and 143)

## Privacy and Human Rights Consideration

All personal information collected by East Gippsland Shire Council connected to cash management and investments will be handled in accordance with all applicable privacy legislation and will be used only for the purpose of investing Council funds.

The Investment Policy has been assessed as compliant with the obligations and objectives of the Victorian *Charter of Human Rights and Responsibilities Act 2006*.

# Definitions

Term	Meaning
APRA	Australian Prudential Regulation Authority – the prudential regulator of the Australian financial services industry.
Council	East Gippsland Shire Council
Framework	A set of ideas, principles, agreements, or rules that provides the basis or outline
Investment Portfolio	A collection of investments
Financial Institutions	Banks and other regulated deposit taking organisations.
Council Officer	Member of East Gippsland Shire Council Staff
Standard and Poor's	International credit rating agency – rating used to assess credit risk
APRA	Australian Prudential Regulation Authority – the prudential regulator of the Australian financial services industry.
Council	East Gippsland Shire Council
Framework	A set of ideas, principles, agreements, or rules that provides the basis or outline

## Supporting procedures / guidelines

### Procedure

#### Investment Approval

A minimum of three quotations must be sought from approved financial institutions before investing or reinvesting funds.

Standard and Poor's Rating Agency records must be checked prior to each investment.

Written recommendations and all relevant information, including the rating agency remarks and the current investment portfolio ratios, must be provided to Executive Manager Finance or delegated authorising officer when approval for investing or reinvesting funds is being requested.

#### Money to be transferred using Council's General Bank Account:

- All investments being rolled over with the same financial institution must be derived from funds transferred from Council's general bank account.
- Funds may be transferred electronically and will be authorised by two officers who are authorised signatories on the general bank account.
- The delegated officer authorised to place funds on Council's behalf must not be an authorised signatory on Council's general bank account or on any bank account set up for the receipt of grants.
- Funds that are being redeemed, or interest paid, must be directly credited to Council's general bank account. If the funds relate to a grant that requires a special bank account, the interest and redeemed funds will be rolled over into the bank account into which the grant was paid.

## Valuation and Measurement

Investments will be brought to account and valued at fair value plus transaction costs directly related to the acquisition of the financial asset in accordance with Australian Accounting Standards.

Interest revenue will be recognised as it is earned.

Annual averages are to be calculated by using the weighted average of end of month balances.

## Reporting

A register of investments will be maintained in Council's Electronic Document Records Management System (ECM). The investment register will list all investments and will also contain all letters of advice from financial institutions.

A monthly report must be produced reconciling the investments register to the general ledger. Executive Manager Finance will provide a report to Council's July Audit and Risk Committee meeting each year that details Council's investment performance for the preceding financial year. The report will also provide information on any significant events, issues and/or any policy breaches or instances of non-compliance with the Investment Framework that may have occurred during the year.

## Example of Application of Investment Framework:

Investment Portfolio: \$18 million

<b>Short Term Investment</b>	<b>Long Term Investment</b>	<b>Portfolio Credit A</b>	<b>Any one Financial Institution B</b>	<b>Term to Maturity (0-6 Months)</b>	<b>Investment Split A</b>	<b>Investment Split B</b>
AAA to AA-	A1+	100%	50%	100%	\$10m	\$10m
A+ to A-	A1	80%	30%	80%	\$8m	\$8m
BBB+ to BBB-	A2	50%	20%	60%	0	0
<b>Total Investment Portfolio</b>					<b>\$18m</b>	<b>\$18m</b>

### Example of Investment Split A and B for a total investment portfolio of \$18m over two credit ratings:

To comply with policy Investments in AAA to AA- rated financial institutions the \$10m would have to be split as follows:

#### Short term investment

AAA to AA- Rated

Bank 1 \$5m (maximum investment 50%)  
Bank 2 \$5m (maximum investment 50%)

To comply with policy Investments in A+ to A- rated financial institutions the \$8m would have to be split as follows:

#### Short term investment

A+ to A- Rated

Bank 3 \$2.4m (maximum investment 30%)  
Bank 4 \$2.4m (maximum investment 30%)  
Bank 5 \$2.4m (maximum investment 30%)  
Bank 6 \$0.8m (maximum investment 30%)



## Monitoring

The performance of the investment portfolio will be monitored on a quarterly basis. This will also include monitoring of the credit rating of all Council investments. An action plan is to be completed and presented to Director Corporate as a result of any downward changes in the credit rating of any approved financial institution that holds current investments.

## Revision History and Review

This policy is reviewed annually.

Version Control	Approved Amended Rescinded	Date Effective	Approved By	ECM Document Reference	Summary of Changes
1	Approved	18/7/11	Management/ Audit Committee	4720553	
	General review	15/10/13	Audit Committee		
2	Approved	19/11/13	Council	5523290	
3	Approved	01/03/16	Council	6658650	
4	Approved	06/06/17	Council	7181884	
5	Approved	04/09/18	Council	7730500	Minor administrative changes