

Investments Policy

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1. Purpose

To provide guidance for the effective and responsible investment of Moorabool Shire Council's surplus cash funds to maximise earnings within approved risk parameters and to ensure the security of funds within the legislative guidelines applicable to Council, primarily Section 103 of the Local Government Act (2020).

2. Definitions

MSC	Moorabool Shire Council
CBA	Commonwealth Bank of Australia
TCV	Treasury Corporation of Victoria
ADI	Authorised Deposit-Taking Institution
ASX	Australian Stock Exchange
DTF	Department of Treasury and Finance
EFT	Electronic Funds Transfer
CDO	Collateralised Debt of Obligation
APRA	Australian Prudential Regulatory Authority

3. Scope

This Policy and Procedure applies to all applicable Council staff and Councillors who make decisions regarding investments made on behalf of Council as part of their normal duties.

There are two types of Council investments that are to be invested in accordance with the Investment Guidelines below, these being:

- At Call Investment - whereby Council maintains a cash reserve account for day-to-day funding requirements. This Investment Account is facilitated through Council's contracted Bank – currently the Commonwealth Bank of Australia (CBA); and

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- General Investment – this is the investment of excess funds from day-to-day operations for a short-term period.

4. Non-Compliance

Violations of this Policy may lead to loss of reputation for MSC and its staff (including a lack of faith in MSC to fulfill its community service obligations), and, to relevant disciplinary action (including dismissal) and/or action by the relevant regulatory authorities.

5. Policy and Procedure rationale

The intent behind Council's Investment Policy is to ensure that:

- Preservation of capital is the primary objective of the investment portfolio. Funds are to be invested in a way that seeks to ensure continual security of the investment portfolio. This includes managing credit and interest rate risk within approved thresholds and parameters;
- The investment portfolio is to be maintained in manner that will ensure adequate liquidity to meet all of MSC anticipated cashflow needs for ongoing operational commitments, as they fall due, without incurring unnecessary costs;
- Investment decisions are based on the security of funds by limiting unnecessary exposure to risk but still achieving a prudent rate of return;
- Legally restricted funds are appropriately invested so as to earn a reasonable income towards their purposes (whilst limiting unnecessary exposure to risk);
- All funds are invested in accordance with applicable legislative and Council requirements;
- Effective internal controls exist to minimise investment risk and unauthorised appropriation of Council funds; and
- All investment transactions are appropriately authorised and documented.

5.1. Policy Statement

5.1.1. Standard of Prudence

Investments are to be managed with the requisite care, diligence and skills that a prudent person would exercise in managing the affairs of other persons with regard to the Policy's purpose stated above. This includes having in place appropriate reporting requirements that ensure the investments are being regularly reviewed and overseen by appropriate staff.

Council staff who make investment decisions (Investment Officers) are to manage the investment portfolios in accordance with the intent outlined in this Policy. Investment officers are to avoid any transaction that might harm confidence in MSC and its employees. They are to consider the safety of capital and income objectives outlined above when making an investment decision.

When acting under the provisions of this Policy, Investment Officers should always maintain a professional judgement in balancing the risk and return objectives and act as a steward of Council funds.

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5.1.2.Ethics and Conflict of Interest

Investment Officers shall refrain from acting on personal considerations that would conflict with the proper execution and management of actions related to MSC's investment portfolio. This includes activities that would impair the Investment Officer's ability to make impartial decisions.

This Policy requires that Investment Officers immediately disclose any conflict of interest related to the investment portfolio to the Chief Executive Officer or General Manager Customer Care and Advocacy or Chief Financial Officer as appropriate.

5.1.3.Delegation of Authority

Authority for implementation of this Policy is delegated by the Council to the Chief Executive Officer in accordance with the Victorian Local Government Act 2020.

Authority for the day-to-day management of Council's investment portfolio is to be delegated by the Chief Executive Officer to the General Manager Customer Care and Advocacy, Chief Financial Officer, Co-ordinator Financial Services, Senior Accountant and Accountant.

The Chief Executive Officer, General Manager Customer Care and Advocacy, Chief Financial Officer, Co-ordinator Financial Services, Senior Accountant and Accountant (referred to in this Policy as Investment Officers) or a person acting in any of these roles has the authority to invest surplus funds on Council's behalf in accordance with this Investment Policy.

5.1.4.Internal Controls

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

- All placement and redemption of investments must be co-authorised by one of either the Chief Executive Officer or General Manager Customer Care and Advocacy, and by one of either the Chief Financial Officer or the Co-ordinator Financial Services or a person acting in any of these roles;
- The Investment authorisation process must be carried out in accordance with any other relevant Council policies and procedures – such as the Accounts Payable and Electronic Funds Transfer (EFT) processes;
- All documentation relating to investments must be obtained and stored in both a printed form and an electronic copy placed in Council's electronic records management system, SharePoint;
- A quarterly Investment Activity Report is to be submitted to the Audit and Risk Committee and Council as part of the Quarterly Financial Report.

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5.1.5. Investment Guidelines

5.1.5.1 Authorised Investments

Council has a conservative Investment Policy by investing funds in accordance with Section 103 of the Local Government Act 2020. However, the Investment Officers must also consider prevailing international and national economic conditions when determining the most suitable financial institution for funds investment.

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 must be divested as soon as practicable or at maturity.

Standard and Poors Investments Ratings

Short Term Rating

Refers to the financial institution's capacity to repay debt in the short term of say 0 to 365 days.

A1+	Extremely strong degree of safety regarding timely payment
A1	A strong degree of safety
A2	A satisfactory capacity for timely payment
A3	An adequate capacity for timely payment
B	Speculative

Long Term Rating

Refers to securities, such as Semi-Government and corporate, which have a maturity greater than 12 months.

AAA and AAA-	An extremely strong capacity to repay debt
AA+ to AA-	A very strong capacity to repay debt
A+ to A-	A strong capacity to repay debt
BBB and BBB-	An adequate capacity to repay debt
BB+ and BB-	Uncertainties or adverse conditions could lead to inadequate capacity to repay debt
B+ and B-	Adverse conditions likely to impair capacity to repay debt

Investment Officers should seek advice from suitably qualified persons or Institutions if they are in doubt as to the suitability of an investment strategy or product.

This Investment Policy prohibits any investment carried out for speculative purposes, including the following:

- Derivative based investments;
- Principal only investments or securities that provide nil or negative cash flow;
- The use of leveraging (borrowing to invest);
- Stand alone securities issued that have underlying futures, options, forward contracts and swaps of any kind;
- Any securities issued in non-Australian currency; and

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- ‘Enhanced cash Funds’ or similar products that fall within the definition of a CDO.

Where practical, funds in excess of those required for the day-to-day operations of MSC must be invested for a short to medium-term period (less than 1 year) with an Australian Prudential Regulatory Authority (APRA) Authorised Deposit-Taking Institution (ADI) and in accordance with this Policy.

The listing of APRA ADIs can be accessed at www.apra.gov.au; it is the responsibility of Council Investment Officers to ensure that the current list is referred to at all times.

5.1.5.2 Exposure and mix of investments

Investment Officers are authorised to invest funds at a minimum deposit level of \$500,000. This is aimed at maximising the earnings achieved on Council’s investment.

The best possible investment rate must be used subject to limits outlined in Table 1.

Table 1 - Selection criteria for ADI and relevant required thresholds

Short Term Rating - S&P	Long Term Rating - S&P	Maximum Percentage of Total Funds with One Financial Institution	Maximum Term to Maturity	Maximum Percentage of Total Investments
A1+	AAA- AA-	40%	12 months	100%
A1	A+ A-	30%	12 months	60%
A2	A-- BB B+	20%	12 months	20%
A3	BBB- BBB3	10%	12 months	10%

Investment Amount and Period

A number of factors need to be taken into consideration when determining the aggregate sum of funds to be invested at any given time.

These include:

- The number of pay periods in the proposed investment period;
- The number of creditor payment cycles in the proposed investment period;
- Large receipts due to be received in that investment period (e.g. rate payment dates, significant grants or large debtors); and
- Significant outlays for capital works.

To facilitate this, a forecast of cash position is to be maintained at all times.

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5.1.5.3 Maximisation for Investment Return

Investment Officers should aim to maximise where possible, favourable returns that do not jeopardise the security of funds invested.

Interest rate quotes must be obtained from a minimum of three approved financial institutions for every general investment. At least one quote must be obtained from a financial institution with a presence in the Moorabool Shire. 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 Investment Officers will determine the financial institution(s) for the placement of investment funds in accordance with this Policy.

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. Further in the event of quotes being equal, that preference is given to Council's contracted bank, currently the CBA.

5.1.5.4 Investment term

Investments may occur at any time surplus funds are available and will have an investment period of no greater than 1 year. For year-end purposes, Investment Officers will consider the ending cash position whilst ensuring that maximum funds are being invested. Funds that are not redeemed on the 30th June must have a verifiable interest accrual recorded in the financial statements.

If sufficient funds are available for investment and a greater return can be achieved, it is acceptable for multiple investments to be undertaken with varying maturity dates (up to 1 year), depending on Council's future cash flow requirements.

5.1.5.5 Confidentiality

It is common for financial institutions that have been unsuccessful with their interest rate quote to contact Investment Officers for details as to who the successful financial institution was and the interest rate accepted. In such circumstances, only the successful interest rate may be disclosed to help foster competition.

5.1.6. Reporting

- Investment activities and results must be reviewed on a monthly basis by the Chief Financial Officer and reported to the Chief Executive Officer and General Manager Customer Care and Advocacy in the form of an Investment Activity Report within five working days of the end of each month.
- A quarterly Investment Activity Report is to be submitted to the Audit and Risk Committee and Council as part of the Quarterly Financial Report.
- A register of investments must be maintained together with an investment file containing all letters of advice from financial institutions. Copies must be also included in Council's electronic records system (SharePoint).

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- 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 all applicable Australian Accounting Standards as recognised in the Council's annual report.
- Interest revenue will be recognised as it is earned.
- Documentary evidence will be held for each investment, the details maintained in an investment register, and a reconciliation of the investment register to the general ledger will be completed and reviewed monthly.
- Compliance will also be monitored through periodic reviews of control processes by the Chief Financial Officer, in addition to internal and external audits

6. Related Legislation

All investments shall comply with the Victorian *Local Government Act 2020* (the 'Act'), relevant regulations and guidelines issued by DTF, or directions issued by the Victorian Local Government Minister or Local Government Victoria.

Section 101 of the Act specifies the 'Principles of sound financial Management' for local government:

- (1) The following are the financial management principles:
 - (a) revenue, expenses, assets, liabilities, investments and financial transactions must be managed in accordance with a Council's financial policies and strategic plans;
 - (b) financial risks must be monitored and managed prudently having regard to economic circumstances;
 - (c) financial policies and strategic plans, including the Revenue and Rating Plan, must seek to provide stability and predictability in the financial impact on the municipal community;
 - (d) accounts and records that explain the financial operations and financial position of the Council must be kept.
- (2) For the purposes of the financial management principles, financial risk includes any risk relating to the following:
 - (a) the financial viability of the Council;
 - (b) the management of current and future liabilities of the Council;
 - (c) the beneficial enterprises of the Council.

Section 103 of the Act states:

"A Council may invest any money:

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

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The Minister for Local Government authorised the following investments for the purposes of section 103(f) in July 2007:

- Certificates of deposit and bills of exchange;
- Investments in the Treasury Corporation of Victoria;
- Investments in managed investment schemes with a minimum rating of AAm or AAf from Standard and Poors Australian Ratings; and
- Fixed interest securities of an Australian Authorised Deposit Taking Institution and Shares listed on the Australian Stock Exchange, subject to certain conditions. These conditions include compliance with the Prudential Statement issued by the Minister for Local Government and approval of such investments under an appropriate plan by the Department of Treasury and Finance.

Accounting Standards

MSC will comply with all applicable Australian Accounting Standards (AASB) including:

- AASB7 Financial Instruments Disclosure
- AASB13 Fair Value Measurement
- AASB132 Financial Instruments Presentation
- AASB136 Impairment of Assets
- AASB139 Financial Instruments Recognition and Measurement

7. Council Plan Reference

Objectives: A Council that listens and adapts to the needs of our evolving communities
Context: Focus resources to deliver on our service promise in a sustainable way

8. Monitoring, Evaluation and Review

The Policy is to be monitored, evaluated and reviewed on a regular basis to be determined and/or when any of the following occur;

- The relevant legislation is amended or replaced;
- Other circumstances as determined from time to time by a resolution of the Council;
- Any other change or update which materially impacts and alters this Policy.

Notwithstanding the above, this Policy is to be reviewed every four years.