



Ararat Rural City

Investment Policy

DOCUMENT CONTROL

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Responsible Officer: Chief Executive Officer

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Stakeholder Engagement:
Councillors
Audit Committee
Manager Corporate Support

INTENT

From time to time, Council has surplus funds that are available for investment. The investment objective of Council is to obtain the highest possible rate of return from the investment of these funds without exposing Council to unnecessary risks.

This policy establishes guidelines for the investment of surplus Council funds. It takes into consideration the requirement for Council to earn the highest available interest return from the various alternatives that provide acceptable security in accordance with the Local Government Act 1989. The Local Government Act (1989) Section 143, states:

A Council may invest any money—

- a) *in Government securities of the Commonwealth;*
- b) *in securities guaranteed by the Government of Victoria;*
- c) *with an authorised deposit-taking institution;*
- d) *with any financial institution guaranteed by the Government of Victoria;*
- e) *on deposit with an eligible money market dealer within the meaning of the Corporations Act;*
- f) *in any other manner approved by the Minister after consultation with the Treasurer either generally or specifically, to be an authorised manner of investment for the purposes of this section.*

POLICY

Objectives

The objectives of this policy, in order of importance, are:

1. Preservation of capital;
2. Ensuring sufficient liquidity is maintained; and
3. Maximising the return on cash balances.

where:

Preservation of capital involves minimising credit risk associated with a financial institution. Credit risk is managed by:

- Only investing surplus funds with financial institutions which have a recognised credit rating specified in this Policy;
- Only investing with Australian owned financial institutions, or Australian based financial institutions with an ABN and a regional office in Australia where the capital investment amount is guaranteed to be preserved by the financial institution; and
- Only investing in financial instruments that are convertible to cash with a maximum 35 days notice
- Eliminating currency risk by only investing in financial instruments in Australian dollars (AUD).

Minimising liquidity risk involves:

- Targeting a minimum average level of cash and cash equivalents to be maintained;
- Having readily accessible standby facilities and other funding arrangements in place;
- Having a liquidity portfolio structure that requires surplus funds to be invested within various bands of liquid instruments; and
- Monitoring budget to actual performance on a regular basis.

Maximising the return on cash balances involves the investment of surplus cash balances after ensuring the preservation of capital and sufficient liquidity for operations.

Investment Principles

The following broad principles shall apply to Council's investments:

- In creating an investment portfolio, the prime objective of Council is to preserve capital, which means achieving a rate of return that is at least equivalent to the rate of inflation. Ideally, Council is expecting to achieve a rate of return greater than the Consumer Price Index.
- Manager Corporate Support shall determine the level of funds available for investment after ensuring adequate cash funds are available to meet daily obligations for creditors, payroll and other short-term

- financial obligations.
- Manager Corporate Support shall determine the term of the investment after ensuring adequate funds are available to meet the short-term liquidity requirements of Council.
- Manager Corporate Support shall ensure that short-term cash remains in Council's operating account, attracting a rate equivalent to the ANZ Business Deposit rate.
- Before investing or reinvesting funds, Manager Corporate Support shall seek at least two quotations from approved financial institutions.
- Manager Corporate Support shall take into account the following when making a decision on where to invest:
 - a) the quoted interest rate received by the various approved financial institutions,
 - b) the relationship it has with the ANZ Bank in regard to payment for banking services;
 - c) the level of existing funds held by the various financial institutions; and
 - d) the relationship between credit rating and interest rate.
- Manager Corporate Support shall regularly review the credit performance of all organisations where Council invests funds.
- Financial investments will generally be restricted to terms of one year or less. Terms exceeding one year shall only be considered for long-term financial reserves or long-term projects.
- Manager Corporate Support shall reference "Standards & Poors" to determine the short-term credit rating for approved financial institutions.
- The maximum amount invested with Financial Institutions rated below AA shall be limited to 33.33% of the total amount of investments held.
- Council may invest in the following types of investments
 - a) Bank accepted bills of exchange
 - b) Fixed term deposits
 - c) Promissory notes
 - d) Negotiable Certificates of Deposits (NCD's)
 - e) Transferable Certificates of Deposits (TCD's)
 - f) Bonds
 - g) Floating rate notes
 - h) CPI indexed linked securities
 - i) Debentures
- Council may invest with the following institutions:
 - a) Financial Institutions with a Standard & Poors rating of not less than 'A'
 - b) Commonwealth Government Securities
 - c) State Government Securities
- Council will not use its investment portfolio as leverage to borrow.
- Manager Corporate Support shall manage the investment portfolios not for speculation but for investment and in accordance with this investment policy.
- Manager Corporate Support shall avoid any transaction that might harm Council and shall consider the safety of capital and income objectives when making investment decisions.
- Due to Council's limited level of funds for investment and a conservative approach to investments, Council shall not invest in managed funds. Council prefers short-term deposits and negotiable certificates of deposit from approved financial institutions.
- Due to Council's limited level of funds for investment and the conservative types of investments held, Council has not appointed an external investment manager.
- The status and performance of Council's investments shall be reported to Council at least every six months
(do we need this - has never been done)

POLICY IMPLEMENTATION

The officer responsible for the administration of this policy is **Chief Information Officer**.

ADMINISTRATIVE UPDATES

It is recognised that, from time to time, circumstances may change leading to the need for minor administrative changes to this document. Where an update does not materially alter this document, such a change may be made administratively, Examples include a change to the name of a Council department, a change to the name of a Federal or State department, and a minor update to legislation which does not have a material impact. However, any change or update which materially alters this document must be by resolution of Council.

TERMS/DEFINITIONS

TERM	DEFINITION																										
Investments	Include all cash and cash equivalents either restricted or unrestricted, excluding cash on hand. This includes discretionary and non-discretionary cash-backed reserve funds.																										
Short Term Investment	An investment that has a term to maturity of 12 months or less from the date the investment was made.																										
Long Term Investment	An investment that has a term to maturity of more than 12 months from the date the investment was made and is restricted to a maximum term.																										
Target Rate of Return	Investment rate of return is above the 90 day bank bill swap rate plus 60 basis points.																										
Maximum Term	Term to maturity of an investment is restricted to 5 years or less from the date the investment was made.																										
Liquidity Risk	Includes the risk that, as a result of our operational liquidity requirements: we will not have sufficient funds to settle financial transactions when they fall due; or we will be forced to sell investments at a value which is less than what they are worth; or we may be unable to settle or recover financial assets.																										
Credit Risk	Includes the risk that a financial institution will not complete its obligations under a financial instrument and cause a financial loss.																										
'Standards & Poors' Credit Rating	<table border="1"> <tbody> <tr> <td rowspan="5">Investment Grade</td> <td>AAA</td> <td>Extremely strong capacity to meet financial commitments. Highest rating</td> </tr> <tr> <td>AA</td> <td>Very strong capacity to meet financial commitments</td> </tr> <tr> <td>A</td> <td>Strong capacity to meet financial commitments, but somewhat susceptible to adverse economic conditions and changes in circumstances</td> </tr> <tr> <td>BBB</td> <td>Adequate capacity to meet financial commitments, but more subject to adverse economic conditions</td> </tr> <tr> <td>BBB-</td> <td>Considered lowest investment-grade by market participants</td> </tr> <tr> <td rowspan="7">Speculative Grade</td> <td>BB+</td> <td>Considered highest speculative-grade by market participants</td> </tr> <tr> <td>BB</td> <td>Less vulnerable in the near-term but faces major ongoing uncertainties to adverse business, financial and economic conditions</td> </tr> <tr> <td>B</td> <td>More vulnerable to adverse business, financial and economic conditions but currently has the capacity to meet financial commitments</td> </tr> <tr> <td>CCC</td> <td>Currently vulnerable and dependent on favorable business, financial and economic conditions to meet financial commitments</td> </tr> <tr> <td>CC</td> <td>Highly vulnerable; default has not yet occurred, but is expected to be a virtual certainty</td> </tr> <tr> <td>C</td> <td>Currently highly vulnerable to non-payment, and ultimate recovery is expected to be lower than that of higher rated obligations</td> </tr> <tr> <td>D</td> <td>Payment default on a financial commitment or breach of an imputed promise; also used when a bankruptcy petition has been filed or similar action taken</td> </tr> </tbody> </table> <p>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>	Investment Grade	AAA	Extremely strong capacity to meet financial commitments. Highest rating	AA	Very strong capacity to meet financial commitments	A	Strong capacity to meet financial commitments, but somewhat susceptible to adverse economic conditions and changes in circumstances	BBB	Adequate capacity to meet financial commitments, but more subject to adverse economic conditions	BBB-	Considered lowest investment-grade by market participants	Speculative Grade	BB+	Considered highest speculative-grade by market participants	BB	Less vulnerable in the near-term but faces major ongoing uncertainties to adverse business, financial and economic conditions	B	More vulnerable to adverse business, financial and economic conditions but currently has the capacity to meet financial commitments	CCC	Currently vulnerable and dependent on favorable business, financial and economic conditions to meet financial commitments	CC	Highly vulnerable; default has not yet occurred, but is expected to be a virtual certainty	C	Currently highly vulnerable to non-payment, and ultimate recovery is expected to be lower than that of higher rated obligations	D	Payment default on a financial commitment or breach of an imputed promise; also used when a bankruptcy petition has been filed or similar action taken
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REFERENCES

Local Government Act 1989
Standards & Poors Global Ratings (<https://www.spratings.com>)

APPENDICES

Nil