

Policy – Council – *Investments*

Date created/amended*:	May 2021
Date of next review:	May 2025
Adopted by:	Council
Date adopted:	18 May 2021
Responsible officer:	Director Corporate & Community Services

1 PURPOSE AND SCOPE

The purpose of this policy is to establish the guidelines for investing Council’s surplus funds and ensure that investments comply with legislative regulations, the returns on investments are maximised and the level of risk exposure is mitigated.

This policy applies to all Council officers who have the delegated authority to invest surplus funds for Council.

2 POLICY STATEMENT

The intent of Council’s investment policy is to ensure that:

- All funds are invested in accordance with legislative requirements and applicable accounting standards.
- 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.
- Effective internal controls exist to minimise the risk of unauthorised appropriation of Council funds; and
- All investment transactions are appropriately authorised and documented.

3 DEFINITIONS

Short-term investment	For the investment market, any investment with terms less than 365 days.
Long-term investment	Any investment with terms greater than 365 days.
Investment Portfolio	A collection of investments.

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Financial Institutions	Banks and other regulated deposit-taking organisations.
ADI	Authorised Deposit-Taking Institution.
Council	Refers to the Pyrenees Shire Council.
Council Officer	Member of Pyrenees Shire Council Staff.
Standard and Poor's	International credit rating agency which provides credit rating scores used to assess the credit risk or general creditworthiness of a company, city, or country that issues debt.

4 POLICY

4.1 LEGISLATIVE FRAMEWORK

The Local Government Act 2020 governs the way in which Council may invest funds. Section 101 of the Act outlines the principles of financial management:

- revenue, expenses, assets, liabilities, investments and financial transactions must be managed in accordance with a Council's financial policies and strategic plans;
- financial risks must be monitored and managed prudently having regard to economic circumstances;
- 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;
- accounts and records that explain the financial operations and financial position of the Council must be kept.

For the purposes of the financial management principles, financial risk includes any risk relating to the following:

- the financial viability of the Council;
- the management of current and future liabilities of the Council;
- the beneficial enterprises of the Council.

Section 103 of the Act further outlines the different types of authorised investments on which Council may invest money.

4.2 INVESTMENT GUIDELINES

4.2.1 Cash Flow

Funds available for investment will be determined following a conservative review of expected future cash flows as well as working capital requirements and timing of future investment maturities.

4.2.2 Credit Rating of Institution

The Council will consider the Standard and Poor's (or similar) credit rating of a financial institution and/or product prior to investment (refer to Appendix A: S&P Ratings).

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In accordance with section 4.2.7 Council currently invests all surplus funds with Bendigo Bank, which has a long-term rating of BBB+ and a short-term rating of A-2. Officers will periodically review Bendigo Bank's credit rating and advise Council of any changes.

If Council chooses to invest with a different financial institution and/or product, Council will only invest funds in short term investments with a credit rating of A1 or higher. For long-term investments, Council will only invest in products with a rating of A or higher. The ratings of A1 and A are given to institutions where they are considered to have a strong capacity to pay.

4.2.3 Term of Investment

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

Investments will be limited to maturities not exceeding 60 months. Maturities will also be laddered to provide for interest rate fluctuations and to minimise investment interest risk.

Investment Horizon Description	Investment Maturity Date	Maximum Allocation
Short -Term Funds	Up to 1 year	100%
Medium- to Long-Term Funds	1 – 3 year	70%
Long-Term Funds	3 – 5 year	50%

4.2.4 Interest Rate

Council will weigh all factors when deciding on an investment, which may mean the highest rate is not always selected. Careful monitoring of interest rate fluctuation will provide a basis for evaluating risk and return.

In accordance with section 4.2.7 Council currently invests all surplus funds with Bendigo Bank, Officers will periodically review the competitiveness of Bendigo Banks investment products and report to Council if it is deemed that significantly higher returns could be achieved with another investment provider.

4.2.5 Types of Investments

Under section 103 of the Local Government Act 2020, Council may invest:

- in Government securities of the Commonwealth; and
- in securities guaranteed by the Government of Victoria; and
- with an ADI (Authorised Deposit-Taking Institution); and

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- 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.

4.2.6 Authorised Institutions

All funds must be invested with an Australian Prudential Regulatory Authority (APRA) Authorised Deposit-Taking Institution (ADI) and comply with section 103 of the Local Government Act 2020.

4.2.7 Economic and Social Impact of Investments

Aside from the application of financial prudence and responsibility, the Council also believes in exercising a long-term holistic approach to the investment of surplus funds and considers not just the financial but also the economic and social impact of its investments on the community.

In line with this approach, Council's investments are currently allocated to term deposits with Bendigo Bank, the only bank with a presence in the Shire. These investments are split 60% to the Beaufort Branch and 40% to the Avoca Branch.

As a financial institution rooted in the community, local banks, such as Bendigo Bank, have a vested interest in supporting local businesses, which essentially form the backbone of every rural community.

Community banks are a great resource for small business loans and other financial services. In addition, the earnings of these community banks are often re-injected into the community through investment in local businesses, support of community development projects such as the beautification of parks and the provision of resources to local organisations like local charities, sporting clubs and volunteer programs.

Council investments in a local bank will keep this money local, thereby generating financial, social and economic contributions that will benefit our community as a whole.

4.3 INVESTMENT REGISTER

The Investment Register shall be updated following each investment and be reconciled to the ledger monthly as part of the Monthly Balance Sheet Reconciliation process.

The Investment Register shall include:

- Investment date
- Type of investment
- Maturity date
- Period of investment
- Financial institution

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- Amount invested
- Interest rate
- Interest received

4.4 AUTHORITY TO INVEST

The Manager Financial Services shall manage cashflow, identify surplus funds available for investment and invest surplus funds on behalf of Council in accordance with relevant legislation and delegation of authority.

4.5 REPORTING

The Monthly Financial Report shall include a Treasury Report summarising:

- Total Cash Holdings (including totals of restricted cash balances).
- The Average Interest Rate held, with a comparison to the 90 Day Bank Bill Rate and the RBA Cash Rate.
- Total Investment Balances held each month end.

5 REFERENCE & RELATED DOCUMENTS

- Local Government Act 2020
- Corporations Act 2001
- APRA (Australian Prudential Regulation Authority)
- Banking Act 1959
- S&P (Standard and Poor's) Credit Rating Agency

5.1 Consultation and impact

Pyrenees Shire Council is committed to consultation and cooperation between management and its employees. Council will involve elected employee health and safety representatives in any workplace change that may affect the health, safety or wellbeing of any of its employees.

Development of this Policy was conducted in consultation with relevant staff and consultative committees prior to approval. It is considered that this Policy does not impact negatively on the rights identified in the Charter of Human Rights and Responsibilities (2007).

6 VERSION HISTORY

Version Number	Issue date	Description of change
1.0	May 2021	Initial release

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APPENDIX A – STANDARD & POOR’S (S&P) RATINGS

Short-Term

Rating	Rating Description
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	General default on obligation

Long-Term

Rating	Rating Description
AAA	Extremely strong capacity to pay
AA	Very strong capacity to pay
A	Strong capacity to pay
BBB	Adequate capacity to pay
BB	Major uncertainties or adverse conditions could lead to inadequate capacity to pay
B	Adverse conditions likely to impair capacity to pay
CCC	Vulnerable to default
CC	Highly vulnerable to default
D	Default will be a general default

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