



## INVESTMENT OF COUNCIL FUNDS POLICY

Policy Number	C24	Directorate	Corporate & Community Services
Council Item No.	5.12	Department	Finance, Risk and Procurement
Council Adoption Date	22 May 2013	Primary Author	Tom Lovass
Revision Date	24 May 2017	Secondary Author	Matthew Oomman

### POLICY OBJECTIVE

To invest South Gippsland Shire Council surplus funds, with consideration of risk and at the most favourable rate of interest available to it at the time, for that investment type, while ensuring that its liquidity requirements are being met.

It is also to ensure that communities with a community bank facility benefit from Council investing up to a target of 35% of available cash with them which indicates a level of corporate support and acknowledgement of the role community banks provide to their local communities.

### LEGISLATIVE PROVISIONS

- Local Government Act 1989– Section 143
- The Trustees Act 1962 – Part III Investments
- Australian Accounting Standards

### DEFINITIONS

‘Community Bank’ – A bank that is set up by the community under the auspices of a major bank.

‘Credit Risk’ – Credit risk is the risk of loss to an investor due to counterparty’s failure to pay and / or repay principal of an investment.

‘Counter party’ – Is both a legal and financial term that refers to the other individual or institution to an agreement or contract.

‘Financial Instrument’ – Is any contract that gives rise to a financial asset of one entity, and a financial liability or equity instrument of another entity.

‘Interest Rate Risk’ – Interest rate risk is the risk that the fair value or future cash flows of an investment will fluctuate because of changes in market interest rates.

‘Investment Portfolio’ – A collection of investments.

‘Market Risk’ – is the risk that the fair value or future cash flows of an investment will fluctuate due to changes in market prices.

‘Maturity Risk’ – Is the risk relating to the length of term to the maturity of the investment. The larger the term, the greater the length of exposure.



‘Preservation of Capital’ – Refers to an investment strategy with the primary goal of preventing losses in an investment portfolio’s total value.

‘Risk Aversion’ – Is the reluctance of an individual to invest in a product with a higher risk compared to a product with lower risk, but possibly lower returns.

‘Speculative’ A speculative deal involves deliberately taking a higher risk, in the hope of making an extraordinary gain.

‘Surplus cash’ – Funds that are deemed surplus to operations for periods greater than 7 days.

‘Yield’- The annual rate of return on an investment.

### **POLICY STATEMENT**

While exercising the power to invest, consideration is to be given in preservation of capital, liquidity, and the return on investment.

- Preservation of capital is the principal objective of the investment portfolio. Investments are to be performed in a manner that seeks to ensure security and safeguards the investment portfolio. This includes managing capital, credit and interest rate risk within identified thresholds and parameters.
- The investment portfolio will ensure there is sufficient liquidity to meet all reasonably anticipated cash flow requirements, as and when they fall due, without incurring significant costs due to the unanticipated sale of an investment.
- The investment (net of funds invested with community banks) is expected to achieve a predetermined market average rate of return that takes into account the Council’s risk tolerance.

### **DELEGATION OF AUTHORITY**

Authority for implementation of the Investment of Council Funds Policy is delegated by Council to the Chief Executive Officer in accordance with the *Local Government Act 1989*. The Chief Executive Officer may in turn delegate the day to day management of Council’s Investment to Principal Accounting Officer or senior officers in accordance with Section 224 of the Local Government Act 1989.

### **PRUDENT PERSON STANDARD**

The investment will be managed with the care, diligence and skill that a prudent person would exercise. Officers are to manage the investment portfolios to safeguard the portfolios in accordance within the spirit of this Investment of Council Funds Policy, and not for speculative purposes.



## **ETHICS AND CONFLICTS OF INTEREST**

Officers shall refrain from personal activities that would conflict with the proper execution and management of Council's investment portfolio. This policy requires officers to disclose any conflict of interest to the Chief Executive Officer.

## **APPROVED INVESTMENTS**

Investments are limited to:

- State/Commonwealth Government Bonds;
- Interest bearing deposits;
- Bank accepted/endorsed bank bills;
- Commercial paper; and
- Bank Negotiable Certificate of Deposits.

## **PROHIBITED INVESTMENTS**

This Investment of Council Funds policy prohibits any investment carried out for speculative purposes including:

- Derivative based instruments;
- Principal only investments or securities that provide potentially nil or negative cash flow;
- Stand alone securities issued that have underlying futures, options, forwards contracts and swaps of any kind; and
- Prohibits the use of leveraging (borrowing to invest) of an investment.

## **RISK MANAGEMENT GUIDELINES**

When Council holds more funds than is deemed necessary to fund its operations over the ensuing 7 days or more (as in when rates are paid in full or grants are received in advance) then these surplus funds be invested at the best possible rate for the period the funds are not required to fund outgoings.

Surplus funds should firstly be invested with the community bank to a target of 35% of available cash, providing that the community bank rate is not more than 10 basis points below the best available interest rate from the traditional commercial banks that Council deals with on a day-to-day basis. The balance will then be invested at the best available interest rate.

To control the credit quality of the entire portfolio, surplus funds will only be invested in Approved Deposit taking Institutions (ADIs) approved by the Australian Prudential Regulation Authority (APRA) with a credit rating of at least A2 (short term) and AA (long term) as assessed by Standard and Poor's independent credit rating.



## BENCHMARKING

Performance benchmarks established are

Investment	Performance Benchmark
Cash	Cash rate
Enhanced / Direct Investments	CBA bank Bill

## REPORTING AND REVIEW

A report will be included in InfoSum on a quarterly basis. The report will detail the investment portfolio in terms of performance, percentage exposure of total portfolio and maturity date.

This Investment of Council Funds Policy will be reviewed at least once every 4 years or as required in the event of legislative changes.

Documentary evidence must be held for each investment and details thereof maintained in an Investment Register.

Confirmation must be obtained from the financial institutions confirming the amounts of investments held on the Council's behalf as at 30 June each year and reconciled to the Investment Register.

## IMPLEMENTATION STATEMENT

1. Executive Leadership Team approves draft policy.
2. List on Council agenda and seek approval for draft policy.
3. Financial accountant and finance staff to be advised of policy provisions for their information and implementation.
4. The policy will be posted on Council's internet site.