



WARRNAMBOOL  
CITY COUNCIL

# **Investment Policy**

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## 1. INTRODUCTION

Warrnambool City Council has formed an investment policy to formalise its investments procedures following management discussions and directions by the Victorian Auditor General Office.

In developing the Investment Policy, Council has considered both ethical and environmental issues and given the scope of allowable investments contained within the policy, Council will not invest in any unethical or environmentally detrimental products.

### 1.1. Scope

This Policy is applicable to the investment and management of Councils funds.

### 1.2. Definitions

Council – Warrnambool City Council, being a body corporate constituted as a municipal Council under the Local Government Act 1989.

Short term investment – For the investment market it is reasonable to consider short term to mean amounts invested less than 365 days

Long term investment – Any investment with terms greater than 365 days.

### 1.3. References

Nil

## 2. OBJECTIVES

- To maximise return on Council funds with a systematic approach while maintaining an acceptable level of risk.
- To ensure Council's investments are made in accordance with section 143 of the Local Government Act 1989.
- To establish a formal policy that provides guidelines for making decisions with respect to Council funds.
- To ensure Council has sufficient levels of funds available to service its commitments as and when they fall due.

In order to meet the above objectives the following matters need to be considered:

- i. Cash flow
- ii. Credit Rating of Institution
- iii. Existence of Guarantee and Security
- iv. Interest Rate
- iv. Period of investment

## 2.1. Cash Flow

Prior to seeking quotes on investment options Council must consider its working capital requirements which will entail upcoming outgoings, including creditor payments, payroll and other liabilities against incoming monies such as rates, grants and cash contributions. If it is deemed that Council will have excess working capital for a sufficient period of time to invest then these funds may be invested to maximise return. Finance staff shall take a conservative approach in determining working capital requirements.

## 2.2. Credit Rating

Council shall consider the credit rating as set by Standard and Poor's (S & P) (or similar organisation) of a financial institution and/or product prior to investment. S & P have different ratings for short and long term investments and are conservative ratings (refer Appendix A).

Council shall only invest funds in short term investment products with a credit rating of **A3 or higher**. For long term investments Council will only invest in products with a rating of **BBB or higher**. The ratings of A3 and BBB are given to products where the financial is institution considered to have an adequate capacity to pay and are deemed appropriate across the industry.

## 2.3. Existence of Guarantee and Security

Council shall consider whether the investment is guaranteed by the institution. Commercial/Bank Bills although guaranteed, rank as an unsecured creditor in the event of winding up in comparison to bank accounts and term deposits which are ranked higher. Given the nature of Commercial and Bank Bills the ratings detailed in this policy must be adhered to so ensure Council funds are not exposed to unnecessary risk.

## 2.4. Interest Rate

Council shall consider all relevant investment products which fall within the relevant credit rating. Council shall consider all factors when deciding on an investment which may mean the highest rate is not always selected.

## 2.5. Period of Investment

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

For the purposes of the Warrnambool City Council 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.

Some investments may be influenced by specific regulations or Council policy where Council is obliged to cash back a specific reserve. In this instance, Council shall consider when these specific funds are likely to be called upon and invest accordingly.

## 2.6. Spread of Investments

Council shall spread its investments to minimise its risk with any one bank. Council's short-term investments shall be spread the following way as a minimum:

- |                               |   |
|-------------------------------|---|
| • \$0 to \$2,000,000          | All invested in products rated A or higher.                     |
| • \$2,000,001 to \$4,000,000  | At least 2 products with at least \$2m invested at A or higher. |
| • \$4,000,001 to \$8,000,000  | At least 3 products with at least \$3m invested at A or higher. |
| • \$8,000,001 to \$12,000,000 | At least 4 products with at least \$4m invested at A or higher. |
| • \$12,000,001 plus           | At least 5 products with at \$5m invested at A or higher.       |

## 3. TYPES OF INVESTMENTS

Council shall only invest with Banks, Credit Unions and Building Societies which are Approved Deposit Taking Institutions (ADI) and shall not invest with organisations that do not meet the ADI requirements.

Although permitted under section 143(f) of the Local Government Act 1989 Council will not invest funds with managed investment schemes. Similarly, Council shall not invest in speculative products where the principal balance is put at risk.

## 4. INVESTMENT REGISTER

The Accountant shall be responsible for maintaining an 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.
- Amount invested.
- Interest rate.
- Interest received.

### 5. AUTHORITY TO INVEST

The Manager Financial Services shall be authorised to invest surplus funds on behalf of Council as contained within S7 Instrument of Delegation.

The Senior Accountant or Accountant shall manage Council's cashflow and identify surplus funds available for investment and recommend investments to the Finance Manager for authorisation.

A minimum of three quotes will be sought from approved financial institutions before investing or re-investing funds.

The best possible investment rate must then be used subject to limits outlined within this Policy. These limits apply at the time of investment.

All quoted interest rates and actions taken must be recorded.

An evaluation of future cashflow needs and investment strategies must be undertaken bi-monthly.

As evidence of the authorisation process the Finance Manager shall sign off the Investment Register.

### 6. REPORTING

The Monthly Financial Report shall include a section addressing Treasury Reporting. This shall summarise the following:

- 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.

### 7. GOVERNANCE

#### 7.1. Owner

The Manager Financial Services will be responsible for this policy and for ensuring the policy is implemented, progress is monitored and the policy is regularly reviewed.

#### 7.2. Review

This policy should be reviewed every three years or where there is a change to legislation or a significant change to investment market conditions.

#### 7.3. Compliance Responsibility

7.3.1. *Management Executive Group (Chief Executive and Directors)*

7.3.2. *Managers and Supervisors*

7.3.3. *All Employees*

### 7.4. Charter of Human Rights Compliance

It is considered that this policy does not impact negatively on any rights identified in the Charter of Human Rights Act (2007).

Warrnambool City Council is committed to consultation and cooperation between management and employees. The Council will formally involve elected employee health and safety representatives in any workplace change that may affect the health and safety of any of its employees.

## 8. APPENDIX A – STANDARD & POORS RATINGS LEVELS

The difference between short term and long term depends on the investment market. For the investment market it is reasonable to consider short term to mean anything less than 365 days.

### Short Term

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	Payment on an obligation due date is not made

### Long Term

AAA	Extremely strong capacity to pay
AA	Very strong capacity to pay
A	Strong capacity to pay
BBB	Adequate capacity to pay
BB	Uncertainties or adverse conditions could lead to inadequate capacity to pay
B	Adverse conditions likely to impair capacity to pay
CC	Vulnerable to default
C	High risk to default
D	Default