Rural City of
Wangaratta

Investment Policy

Responsible Officer Manager Finance		Adoption Date	June 2021
		Approved By	Council
Authorising Officer Chief Executive Officer		Review Date	June 2025
		Policy Type	Council Policy

Statement and Purpose

The purpose of Council's Investment Policy is to ensure that:

- Responsible Council officers invest surplus funds with approved financial institutions;
- All funds are invested in accordance with legislative and council requirements;
- Investment decisions are based on the security of funds by limiting exposure to risk; and
- The financial yield is enhanced through prudent investment of funds, whilst ensuring sufficient liquidity for Council's day to day operational requirements.

Scope

This policy applies to investments made by Council in accordance with the requirements of Section 103 of the Local Government Act 2020 ("the Act") and enhances the legislative requirements by providing additional requirements in managing Council's investment activities of its surplus funds. Council's objective is to maintain the purchasing power of the surplus funds that will be required to fund projects and service delivery in the future.

Policy

The Act provides councils with guidelines and restrictions as to the types of investments that they can make. Council has established an Investment Policy that specifies the framework within which investments will be made.

This policy is to be read in conjunction with Section 103 of the Act. Pursuant to section 103 of the Act, the Minister for Local Government has approved the following manners of investment to apply generally to all councils:

- In Government securities of the Commonwealth;
- In securities guaranteed by the Government of Victoria;

- With an authorised deposit-taking institution;
- With any financial institution guaranteed by the Government of Victoria;
- On deposit with an eligible money market dealer within the meaning of the Corporations Act; and
- 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.

In addition to the requirements of section 103 of the Act, Council requires all investments to meet the following requirements.

Council's own direct investments

Council will apply the following hierarchy of objectives when investing surplus funds:

1. Preservation of capital;
2. Liquidity of cash flow;
3. Investment return; and
4. Socially responsible investments.

Council's investment objectives have been developed having regard to three key considerations:

1. How long Council is investing for;
2. How active Council is in managing its investments; and
3. How much investment risk Council is comfortable with.

Unlike other levels of Government, Council does not have a sovereign wealth fund. Instead, Council utilises surplus funds to reinvest in service delivery for the benefit and wellbeing of the community. Council's investment decisions therefore adopt a conservative approach, whereby short-term fluctuations that could reduce the amount of surplus funds are actively avoided. Council has limited capacity to actively manage complex investments and therefore the portfolio investment parameters and credit requirements set out in Table 1 allow Council to maximise returns without introducing additional risks beyond credit risk, interest rate risk and liquidity risk.

A review of this policy and the above objectives is warranted in the event Council's surplus funds exceed a cash expense cover ratio of 12 months. Where this occurs, it is recommended Council review the above conservative investment objectives and assess whether a change in these objectives is warranted.

Preservation of capital

Council has a conservative investment strategy where the primary objective is to preserve capital and prevent loss. Investments are to be made in a manner that seeks to ensure security of principal.

Liquidity of cash flow

Council's investment portfolio will maintain sufficient liquidity to meet all reasonably anticipated cash flow requirements of Council, as and when they fall due. The portfolio should be managed in a manner that avoids incurring significant transaction costs or loss of interest earnings due to the need to redeem an investment before maturity.

Investment return

Investment returns are to be maximised within the parameters of this Policy. The investment returns must be managed within the portfolio investment parameters and credit requirements set out in this policy.

Socially responsible investments

Investment decisions should preference investments that that seek positive returns and long-term impact on environmental, social and governance (ESG) factors, subject to all other objectives being equal.

Portfolio investment parameters and credit requirements

Short term rating		Long term rating		Maximum % of total investments with one institution	Maximum term to maturity	Maximum % of total investments
S&P	Moody's	S&P	Moody's			
A1+	P-1	AAA to AA-	Aaa to Aa2	60%	2 to 3 years	100%
A1	P-1	A+ to A-	Aa3 to A1	40%	2 years 1 year	25% 60%
A2	P-1 to P-2	BBB+ to BBB-	A2 to A3	20%	1 year 180 days	10% 20%

Table 1

The requirements set out in Table 1 should be applied subject to:

- The best possible investment rate must be used subject to limits outlined in Table 1. These limits apply at the time of 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.
- If a different level of rating for the Short Term and Long-Term rating of a financial institution is applied by one of the Rating Agencies, the lower of the ratings will be utilised by Council in assessing the rating of that financial institution for investment purposes.

The hierarchy of objectives and the portfolio investment parameters and credit requirements work in tandem to manage Council's exposure to credit risk, interest rate risk and liquidity risk. The Investment Policy has been prepared with regard to Council's commitment to effective risk management set out in the Risk Management Policy.

Roles and responsibilities

The Manager Finance has responsibility for managing and reviewing Council's cash balances and investment decisions in accordance with this Policy.

Breaches

This policy can be reviewed or revoked by resolution of Council at any time.

Council Officers found to be in breach of this policy will be subject to relevant disciplinary action in accordance with Council's Enterprise Agreement.

Breaches of this policy will be reported to the Audit & Risk Committee.

Monitoring and evaluation

Investments will be monitored on an ongoing basis for appropriateness, and to ensure that they meet Council's cash requirements at any point in time.

A quarterly report must be produced for the Audit & Risk Committee detailing the percentage exposure of the portfolio, comparing actual investments held with this Policy.

Definitions

Cash expense cover ratio	Indicates the number of months Council can continue paying for its immediate expenses without additional cash inflow. A ratio of at least 3 months is considered appropriate. The ratio is calculated as: $\frac{\text{Current year cash and cash equivalents, and term deposits * 12}}{\text{Payments from cash flow of operating and financing activities}}$
Credit risk	The risk that the financial institution will not fulfil their obligations under the financial instrument resulting in financial loss
ESG	Environmental, social and governance criteria are a set of standards that socially conscious investors use to screen potential investments
Interest rate risk	The variability in return caused by movements in interest rates – Council would be susceptible to this risk if the funds are invested at a fixed rate for a long period and investment rates moved upwards

Liquidity risk	The risk that Council does not have sufficient funds to settle financial obligations as they fall due

Definitions of short-term and long-term ratings per Table 1

Standard & Poor’s (S&P)

Short-Term

A-1+	Capacity to meet its financial commitments on the obligation is extremely strong.
A-1	Capacity to meet its financial commitments on the obligation is strong
A-2	Capacity to meet its financial commitments on the obligation is satisfactory

Long-Term

AAA to AA-	Capacity to meet financial commitments on the obligation is extremely strong to very strong
A+ to A-	Capacity to meet financial commitments on the obligation is strong
BBB+ to BBB-	Adverse economic conditions or changing circumstances are more likely to weaken the capacity to meet its financial commitments on the obligation

Moody’s

Short-Term

P-1	Superior ability to repay short-term debt obligations
P-2	Strong ability to repay short-term debt obligations

Long-Term

Aaa to Aa2	Highest quality with minimal risk to high quality with very low risk
Aa3 to A1	High quality with very low risk to upper-medium-grade and subject to low credit risk
A2 to A3	Upper-medium-grade and subject to low credit risk

References

Legislation

- Local Government Act 2020

Internal policies

- Instrument of delegations, as varied from time to time
- Risk Management Policy

Review

Any change or update which materially impacts and/or alters this policy must be approved by Council. The policy will be reviewed by the Manager Finance every four years.