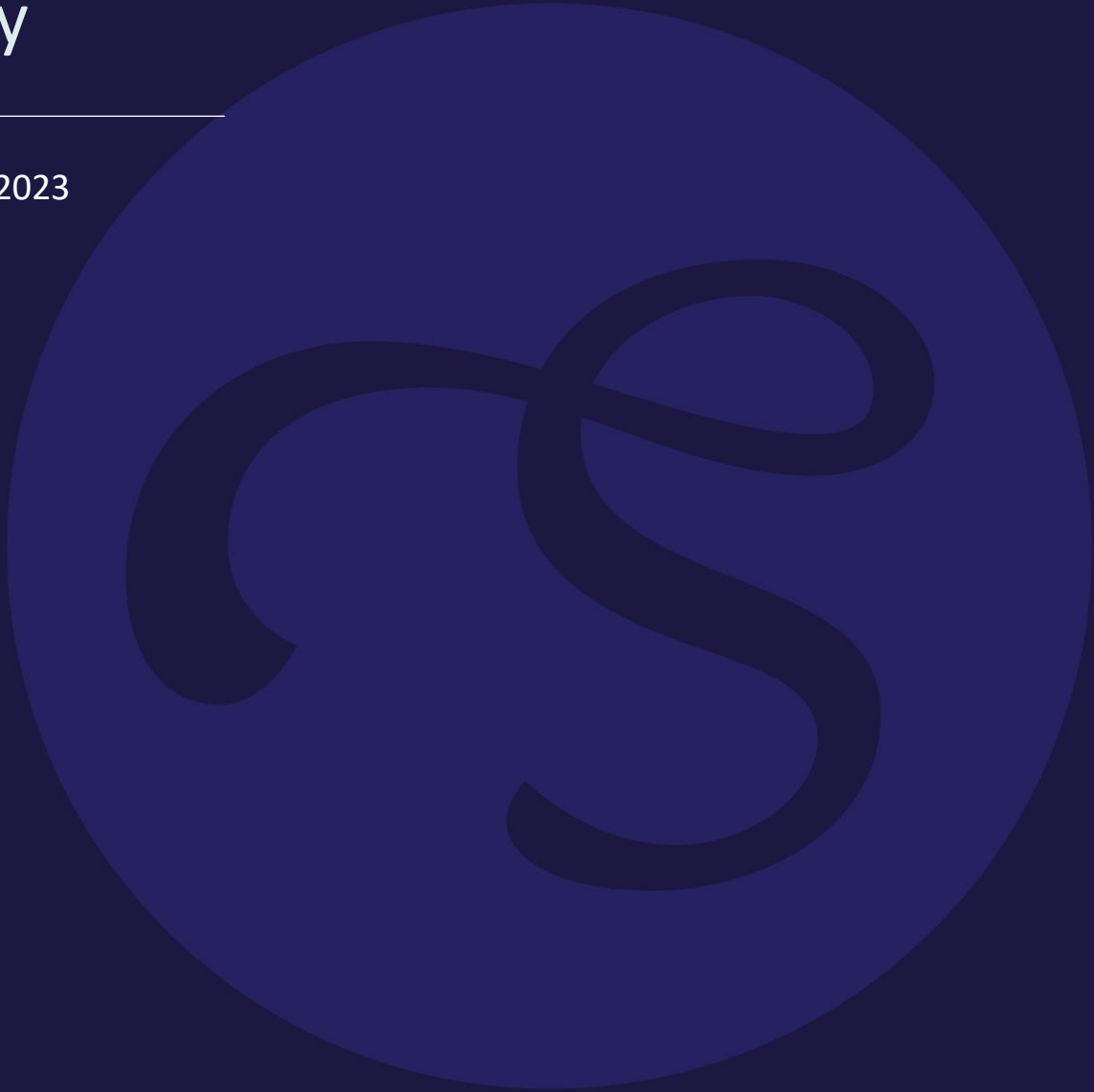


# Strathbogie Shire Council Investment and Cash Management Policy

---

OFFICIAL

October 2023



## Contents

INVESTMENT AND CASH MANAGEMENT POLICY .....	2
PART 1 POLICY .....	3
1. PURPOSE .....	3
2. POLICY STATEMENT .....	3
3. APPLICATION OF THIS POLICY .....	4
4. ACCOUNTABILITY AND RESPONSIBILITIES .....	4
5. INVESTMENT STRATEGY.....	5
6. REPORTING.....	8
7. DEFINITIONS.....	9
8. RELATED POLICIES AND LEGISLATION .....	10
9. POLICY REVIEW.....	10

# Investment and Cash Management Policy

Document ID:	12145
Effective Date:	19 May 2009
Last Review:	November 2021
Current Review:	September 2023
Date Adopted by Council:	14 December 2021
Next Scheduled Review Date:	September 2025
Responsible Officer:	Director People and Governance

## **PART 1 POLICY**

### **1. PURPOSE**

The Strathbogie Shire Council is committed to ensuring that its investments and cash management meet policy guidelines for legal and legislative requirements and that financial resources are managed in an appropriate, open and transparent manner.

Council staff who have been delegated authority to invest Council funds must ensure that all funds invested meet the requirements as set out in this policy. Any decision must be as per the delegation of authority and taken in full compliance with the Council's legal obligations.

Delegation of authority is provided as per the Strathbogie Shire Council Instrument of Sub-Delegation by the Chief Executive Officer in relation to both investing funds and authorization limits for sending funds via Electronic Funds Transfer (EFT).

### **2. POLICY STATEMENT**

Strathbogie Shire Council seeks a balanced investment portfolio which aims to deliver enhanced returns whilst providing security, convenience and easy access to funds as cash flow requirements and Council investment decisions change.

This approach recognises the types and levels of cash reserves that Council holds from time to time, opportunities to maximise ratepayer value, the investments that suit Council's planned cash flow requirements and the importance of protecting ratepayer funds.

This policy creates a framework that allows Strathbogie Shire Council to manage its investment portfolio to achieve the financial goals in line with the Council Plan:

The objectives of this policy are:

#### **1. 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 and are invested in accordance with legislative requirements and Council policy.

#### **2. Ensuring 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.

#### **3. Maximising the Investment Return on Cash Balances**

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.

#### **4. Socially Responsible Investments**

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

### 3. APPLICATION OF THIS POLICY

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.

### 4. ACCOUNTABILITY AND RESPONSIBILITIES

Role	Responsibilities
Audit and Risk Committee	Review Investment Policy and investment and borrowing reports and provide recommendations as appropriate to Council and Council officers.
Chief Financial Officer	is authorised to manage Council’s investment portfolio. This responsibility includes: <ul style="list-style-type: none"> <li>• Actively managing the investment portfolio to increase the potential for better returns and at the same time ensure prudent investments with low risk,</li> <li>• Minimising the likelihood of overdraft, and</li> <li>• Making investment decisions within the parameters of this policy.</li> <li>• authorised to complete daily cash at call investment transfers at the Bank as an authorised bank account signatory.</li> </ul>
Chief Executive Officer	<ul style="list-style-type: none"> <li>• Investment decisions relating to new investment opportunities must be referred to the Chief Executive Officer for approval</li> <li>• Short term investment of Council funds with Australian Institutes, in which case it must not exceed \$3,000,000</li> <li>• may delegate the management of the Investment Portfolio to other persons, but any such delegation must be documented with appropriate internal controls.</li> </ul>
Director People and Governance	Ensures the policy is: <ul style="list-style-type: none"> <li>• Implemented</li> <li>• Financial reserves are reconciled and cash backed</li> <li>• Reviewed and updated</li> </ul>
Finance Coordinator	Can direct banks to withdraw (Nominated Council’s bank account) at maturity or reinvest or place new investments approved as per this policy.

## 5. INVESTMENT STRATEGY

### Suitable Investments

Section 103 of the *Local Government Act 2020* permits Council to 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 (ADI)
- 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, either generally or specifically, to be an authorised manner of investment for the purposes of section 103.

The following types of investments will be acceptable options for Council funds:

- Cash/at-call with Council's main banking institution and Treasury Corporations Victoria (TCV)
- Term deposits with authorized deposit-taking institutions such as licensed banks, building societies or credit unions
- State/Commonwealth Government bonds, debentures, or securities, treasury bonds, treasury notes, treasury indexed bonds
- Bank bills

### Prohibited Investments

This policy prohibits any investment made for speculative purposes, including:

- Derivative based investments
- Principal only investments or securities that provide potentially nil or negative returns
- Stand-alone securities issued that have underlying Futures, Options, Forward Contracts and or Swaps of any type
- The use of borrowing primarily for the purpose of investment
- Any investment that is not denominated in Australian Dollars

### Ethical and Responsible Investments

While achieving primary objectives and investment terms and diversification requirements specified in this document, where possible, Council shall refrain from investment in activities or in financial institutions that would conflict with Strathbogie Shire Council's ethical and responsible investment duty to its community.

All investment decisions will be made having regard to its impact on social, economic and environment outcomes.

- Council encourages investment of its financial resources in areas which promote human welfare, dignity and respect, and the best interests of the Strathbogie Shire community.
- Council will avoid investments which cause injustice and suffering, infringe fundamental human rights or cause unacceptable damage to the natural environment.

## OFFICIAL

Council recognizes that there will be occasions when companies inadvertently breach some of the principles and where genuine efforts are made to rectify the breaches. Council will not prohibit investment in a company where a breach of the principles, in relation to its products or services, is immaterial; the breach may also be balanced by other positive actions. The materiality of the breach is determined by reference to its proportion of the company's activities, the proportion of the industry in which the excluded activity operates, and/or whether the activity is clearly of an egregious nature regardless of this proportion.

If any institutions that Council has investments with come under any unethical category, the investment will be divested as soon as practical.

### Investment Terms and Diversification

The following table shows allocation restrictions and investment limits. It provides current Standard & Poor's short-term credit ratings per category, investment limits for the total amount invested with each institution and investment proportions of total investment portfolios.

Standard & Poor's Short-Term Rating*	Individual Institution Limit	Maximum Investment Proportion
A-1+	40%	100%
A-1	30%	100%
A-2	15%	40%

\*Refer Table 1 below for rating explanation by Standard & Poor's

Short-Term Issuer Credit Ratings	
Category	Definition
A-1	An obligor rated 'A-1' has strong capacity to meet its financial commitments. It is rated in the highest category by S&P Global Ratings. Within this category, certain obligors are designated with a plus sign (+). This indicates that the obligor's capacity to meet its financial commitments is extremely strong.
A-2	An obligor rated 'A-2' has satisfactory capacity to meet its financial commitments. However, it is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligors in the highest rating category.
A-3	An obligor rated 'A-3' has adequate capacity to meet its financial obligations. However, adverse economic conditions or changing circumstances are more likely to weaken the obligor's capacity to meet its financial commitments.
B	An obligor rated 'B' is regarded as vulnerable and has significant speculative characteristics. The obligor currently has the capacity to meet its financial commitments; however, it faces major ongoing uncertainties that could lead to the obligor's inadequate capacity to meet its financial commitments.
C	An obligor rated 'C' is currently vulnerable to nonpayment that would result in an 'SD' or 'D' issuer rating and is dependent upon favorable business, financial, and economic conditions to meet its financial commitments.
SD and D	An obligor is rated 'SD' (selective default) or 'D' if S&P Global Ratings considers there to be a default on one or more of its financial obligations, whether long- or short-term, including rated and unrated obligations but excluding hybrid instruments classified as regulatory capital or in nonpayment according to terms. A 'D' rating is assigned when S&P Global Ratings believes that the default will be a general default and that the obligor will fail to pay all or substantially all of its obligations as they come due. An 'SD' rating is assigned when S&P Global Ratings believes that the obligor has selectively defaulted on a specific issue or class of obligations but it will continue to meet its payment obligations on other issues or classes of obligations in a timely manner. A rating on an obligor is lowered to 'D' or 'SD' if it is conducting a distressed exchange offer.

In addition to the data contained in the above table, an upper limit of \$2 million can be invested with the Goulburn Murray Credit Union (GMCU). However, investment with GMCU should not exceed 30% of total investments.

## OFFICIAL

No single investment body shall hold in excess of 40 per cent of Council's non-cash total investments. However, should the need arise to exceed this limit, the approval of the Chief Executive Officer or Director People and Governance must be obtained and Council is to be advised as soon as practical.

- Non-cash investments includes all investments other than cash/at-call investments which will be held with Strathbogie Shire Council's main banking institution.
- There is no limit to the percentage held with the Strathbogie Shire Council's main banking institution in cash/at-call
- If redemption of funds causes a shift in percentage of funds held with any single investment body to exceed 40 per cent at reporting date, investments will be moved to correct the imbalance upon either (a) next investment maturity date, or (b) next opportunity where funds are available for investment, including use of at-call funds if necessary – whichever occurs first.

If any institutions that Council has investments with are downgraded such that they no longer meet the guidelines of this Policy, the investment will be divested as soon as practical.

The term of investments will be determined by interest rates and projected cash flow commitments. 'Short-term' generally means a period with an original maturity of no more than 365 days.

### **Selection of Investments**

The following guidelines should be followed when selecting investments:

- At least two (2) quotes must be obtained from authorized financial institutions for any new investment unless alternatives are not available
- Selection and acceptance of an investment offer will have regard to types allowed within this Policy, rate of return, term, administrative costs, cash flow requirements and also need for diversity in investment of Council funds
- Investments must be denominated in Australian dollars

### **Selection of Funds Managers / Financial Intermediaries**

Fund managers and financial intermediaries will be selected using the following criteria:

- Meet 'Investment Terms and Diversification' criteria specified above
- Capability to handle Council's investments both in competency and capacity
- Certification of having read and understood relevant legislation including:
  - The *Local Government Act 2020* Section 103 pertaining to local government investments
  - Any Ministerial releases in relation to investments for local government
  - Strathbogie Shire Council Investment and Cash Management Policy.

### **Benchmarks**

A minimum "average rate of return" must be achieved greater than the Strathbogie Shire Council's main banking institutions "at call" rate of return.

The benchmark rates to be used for average rate of return monthly reporting is the 90 day Bank Bill Swap Rates (BBSW) at the end of the reporting month.

## **Title**

All funds invested will be invested under the name of the Strathbogie Shire Council and no rights, powers or access to those funds is to operate in favour of any other party.

## **Cash Management**

The following will apply to cash management practices:

- Cash flows and cash balances will be reviewed daily
- Current balances will be maintained with the principle of achieving as near as practical to a zero balance once current cash flow commitments are taken into account
- Sufficient funds to meet short term cash requirements will be invested in an “at call” account with the Council’s transactional banker
- The balance of funds considered to be surplus to the Council’s immediate cash requirements will be invested in accordance with the guidelines in this Policy
- All investments, including rolling movements, will be recorded in Council’s investment register:
  - The investment register will record and track movement of investments, interest rates, interest received and maturity dates
  - The investment register will be reconciled, at the end of each month, with the general ledger and the daily cash position statement.

## **6. REPORTING**

A report on investment performance should be submitted to the Executive Leadership Team (ELT) on a monthly basis via the Council’s finance report.

Any breach of this policy should be notified to the CEO and the Director People and Governance within 24 hours of the breach being detected, and to the Audit and Risk Committee at the meeting following the breach.

In addition, the following should be noted:

- A register of investments will be maintained together with an investment file containing all correspondence from financial institutions relating to existing or new investments. The register will be updated daily.
- Interest revenue will be recognised in the financial year that it is earned.
- On occasion the upper exposure limit for an individual financial institution (including subsidiaries) may be breached due to the redemption of unrelated investments within the portfolio which cause the overall portfolio value to decrease. This does not constitute a breach of Policy. However, no new investment contracts may be entered into with any financial institutions that would cause that institution to breach or remain above the upper exposure limit.

A summary of investments and percentages will be reported quarterly to Council through the finance performance report.

Council’s Audit and Risk Committee should review the investment performance report at their quarterly meetings.



## 7. DEFINITIONS

Term	Meaning
The Act	<i>Local Government Act 2020</i>
Authorised Deposit-taking Institutions	corporations which are authorised under the <i>Banking Act 1959</i> . ADIs include banks, building societies and credit unions. All ADIs are subject to the same Prudential Standards but the use of the names 'bank
BBSW	Bank Bill Swap Rates
CEO	Chief Executive Officer
Council	the Strathbogie Shire Council
Credit Risk	includes the risk that a financial institution will not complete its obligations under a financial instrument and cause a financial loss
EFT	Electronic Funds Transfer
ELT	Executive Leadership Team
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.
Liquidity Risk	includes the risk that, as a result of our operational liquidity requirements: <ul style="list-style-type: none"> <li>• we will not have sufficient funds to settle financial transactions when due; or</li> <li>• we will be forced to sell investments at a value which is less than face value; or</li> <li>• we may be unable to settle or recover financial assets.</li> </ul>
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.
Maximum Term	term to maturity of an investment is restricted to five (5) years or less from the date the investment was made.
Money Market Dealer	"Eligible money market dealer" means a body corporate declared by ASIC to be an authorised dealer in the short term money market by notice published in the <i>Gazette</i>
Short Term Investment	an investment that has a term to maturity of 12 months or less from the date the investment was made.
Standard and Poor's	International credit rating agency – rating used to assess credit risk
Target Rate of Return	an investment rate of return is above the 90 day bank bill swap rate plus 30 basis points.

## 8. RELATED POLICIES AND LEGISLATION

The following Council, State, regional and national plans and policies are relevant to this policy under each subtitle.

### Legislation

- Section 103 of the *Local Government Act 2020*.
- *Banking Act 1959*

### Other Documents

- Strathbogie Shire Council Instrument of (Sub) Delegation by Chief Executive Officer
- Australian Accounting Standards – AASB 139
- Strathbogie Shire Council Strategic Risk Register

## 9. POLICY REVIEW

Council may review this policy at any time and at least two years from the date of adoption.

Minor amendments to the policy may be authorised by the CEO at any time where such changes do not alter the substance of the policy and/ or the following economic circumstances may also give rise to a review of the policy:

- Legislative changes to the *Local Government Act 2020*
- Changes may impact the financial institutions the Council may invest in
- Change in short-term ratings by Standard and Poor's.
- Shift in economic conditions
- The ability of A-1+ Deposit-taking Institutions to remain competitive in interest rate pricing.