

CP 29 Investment

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Policy Objective

To exercise the power to invest available funds at the most favourable rate of interest available at the time, with consideration to the preservation of capital, credit risk and liquidity:

- Preservation of capital is the principal objective of the Investment Policy.
- Credit risk will be considered before making any investment.
- Sufficient liquidity is to be maintained to meet anticipated commitments.

Background

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

- (a) in Government securities of the Commonwealth
- (b) in securities guaranteed by the Government of Victoria
- (c) with an authorised deposit-taking institution
- (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 after consultation with the Treasurer either generally or specifically, to be an authorized manner of investment for the purposes of this section.

Authorised Deposit-taking Institutions (ADIs) are corporations which are authorised under the *Banking Act 1959*. ADIs include banks, building societies and credit unions.

All ADIs are subject to the same Prudential Standards but the use of the names 'bank', 'building society' and 'credit union' is subject to corporations meeting certain criteria.

Investment Guidelines

Investments are limited to:

Investment type	Investment purpose
Operating account	Day to day liquidity
At call account	Short term liquidity
Term deposits	Available funds

Investments in floating rate notes are prohibited.

Investments are to comply with the following criteria:

- **Overall Portfolio Limits:** limit the overall credit exposure of the investment portfolio.
- **Credit Framework:** limit the exposure to individual institutions.
- **Term to Maturity:** limit the term of investments.

Overall Portfolio Limits

To control the credit quality of the investment portfolio funds invested will only be placed with an Authorised Deposit-taking Institutions with a Standard and Poors short-term rating of A-1 or higher.

A-1 is the highest short-term category used by S&P. The obligator's capacity to meet its financial commitment on the obligation is strong. Within this category, certain obligations are designated with a plus sign (+) This indicates that the obligator's capacity to meet its financial commitment on these obligation is extremely strong.

The following framework limits the percentage of the portfolio exposed to any particular rating category.

Standard & Poors short-term rating	Direct investment maximum
A-1+	100%
A-1	50%

Some examples of Authorised Deposit-taking Institutions are included in the following table (this list is not exhaustive):

Authorised Deposit-taking Institution	Standard & Poors Short-Term rating
Australia and New Zealand Bank	A-1+
Bank of Western Australia	A-1+
Commonwealth Bank of Australia	A-1+
National Australia Bank	A-1+
Rabo Bank	A-1+
Westpac Bank	A-1+
AMP Bank	A-1
Macquarie Bank	A-1
Suncorp Bank	A-1

The Standard and Poors short-term credit ratings will be reviewed annually.

The following table sets out the financial limits per institution:

Standard & Poors short-term rating	Limit per Institution
Commonwealth Bank (A-1+)	\$6,000,000
A-1+	\$4,000,000
A-1	\$1,000,000

In the event that a credit rating of an approved deposit-taking institution issuing the security falls below the required minimum, the necessary arrangements will be made to withdraw the deposits as soon as practical.

Credit Framework

Exposure to individual institutions will be restricted. A maximum of 25 per cent funds are to be held with any one institution, with the exception of the Commonwealth Bank.

Term to Maturity

The portfolio will be invested within the following constraints.

Investment type	Maturity limit
Operating account	n/a
At call account	n/a
Term deposit	270 days

Procedure

The Finance Coordinator will determine the level and term of each investment after having reviewed Council's cash flow projection to enable commitments to be settled as and when they fall due.

The Finance Coordinator will obtain quotations from at least three appropriately rated Authorised Deposit-taking Institutions.

The preferred quotation will be the investment offering the highest rate of return, subject to the investment guidelines included in this Policy.

All funds invested will be invested under the name of "Benalla Rural City Council". No rights, powers or access to those funds is to operate in favour of any other party.

The Finance Coordinator's recommendation is to be approved by the Manager Finance and General Manager Corporate or the Chief Executive Officer.

The Council's investment portfolio will be reconciled by the Finance Coordinator and reviewed by the Manager Finance on a monthly basis.

The Council's investment portfolio will be reported to the Council on a quarterly basis.

Review of Policy

The Investment policy is to be reviewed every two years. The following circumstances may give rise to a change in the policy:

- Legislative changes – changes to the Government Guarantee Scheme or Local Government Act. Such changes may impact the financial institutions the Council may invest in.
- A change in short-term ratings by Standard and Poors.
- Economic conditions change.
- The ability of A-1+ Deposit-taking Institutions to remain competitive in interest rate pricing.