

## Investment and Cash Management

<b>Policy type</b>	Council
<b>Adopted by</b>	Moira Shire Council
<b>Responsible director</b>	Director Corporate Governance
<b>Responsible officer</b>	Manager Finance
<b>Date adopted</b>	12 December 2011
<b>Scheduled for review</b>	12 December 2014

### PURPOSE

To outline Moira Shire Council's investment and cash management objectives, approach, policy and guidelines regarding the investment of surplus cash funds, with the objective to maximise earnings within approved risk guidelines and ensure the security of funds.

### OBJECTIVES

To undertake the conservative investment of working capital, long service leave and other available funds with respect to the time horizon required for use of these funds. Whilst exercising the power to invest or manage cash, consideration will be given to preserving capital liquidity and return on investment as follows:

- **Safety:** Preservation of capital and protection of principal is the principal objective of the Council's investment portfolio. Investment is to be performed in a manner that ensures security and safeguards the investment portfolio including managing credit and interest rate risks within identified thresholds and parameters.
- **Maintenance of Liquidity:** 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 cost due to the unanticipated sale of an investment.
- **Diversification:** The goals for the selection of a portfolio of specific investment are to establish levels of credit quality, diversity by issues and diversification by security type.
- **Ethical Investment:** Investment must conform with accepted business practices and with Council's wider operational sustainability goals, which are included in the Council Plan.
- **Performance:** The investment (net funds invested) is expected to achieve a predetermined market average rate of return, which takes into account Council's risk tolerance. Any additional return target set by Council will also consider the risk limitation and prudent investment principles.
- All investments are to be structured, if practical, to ensure they are guaranteed by the Federal Government of Australia.

### SCOPE

This policy applies to all investments and cash management activities undertaken by Council.



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## DEFINITIONS

**Investments:** arrangements that are undertaken or acquired for producing income.

**Credit Risk:** the risk of loss to an investor due to Counter Party's failure to pay and/or repay principal of an investment.

**Counter Party:** a legal and financial term which refers to the other individual or institution to an agreement or contract.

**Financial Instrument:** 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:** 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.

**Maturity Risk:** the risk relating to the length of term to the maturity of the investment. The longer the term, the greater the length of exposure.

**Preservation of Capital:** an investment strategy with the primary goal of preventing losses in an investment portfolio's total value.

**Risk Aversion:** 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:** involves deliberately taking a higher risk in the hope of making an extraordinary gain.

**Surplus Cash:** funds that are deemed surplus to operations for the time being.

**Yield:** the annual rate of return on an investment.

**Interest Rate benchmark:** equals the bank bill swap rate for 90 days interest plus basis points (as assessed by the Manager Finance).

**Current weighted average interest rate:** the average of the interest rates received for current investments.

## POLICY

Surplus funds will be invested in a manner which provides the highest investment return with the maximum security, while meeting the daily cash flow demands. This policy will conform to legislation governing the investment of local government funds.

### 1. Investments

- (a) Diversification will be pursued within the following guidelines with the purpose to reduce overall portfolio risk whilst attaining market average rates of return. Investments will be diversified by security types and institutions. In selecting authorised investments, consideration will be given to credit rating on the Counter Party.



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- (b) The selection and acceptance of an investment offer will have regard not only to the highest rate of interest quoted, but also to the need to 'spread' investments.
- (c) Investments must be made in Australian dollars.
- (d) The term of investments will be determined by interest rates and projected cash flows.
- (e) Exposure to risk will be minimised by investing in a range of low risk investment products within the constraints of the *Local Government Act 1989*.

### 2. Diversification

The goal for selecting specific investments is to establish levels of credit quality, diversification by issues and by security type. An optimal mix enhances portfolio liquidity and safety. Investments will be made according to the credit rating and exposure limits detailed below.

#### (a) Diversification by Financial Institution

- (i) When placing an investment, no single institution or corporate shall comprise more than 30% of Council's portfolio. Where the exposure limit of an investment category is exceeded as a result of the investment being redeemed, the exposure parameters are to be adjusted at the next available opportunity when funds are able to be reinvested.
- (ii) Investment offers will be obtained by transmitting an email simultaneously to several financial institutions including those with a local office, inviting quotes and requesting a response within the timeframe specified on the invitation. If appropriate, further negotiation may be entered into.

#### (b) Risk Tolerance

In order to protect the principal amount of investments, funds will, ideally, only be invested with institutions and products with a minimum Standard and Poor's credit rating of AA, or better, for long term investment and an AA, or better, for short term investments ensuring a very strong capacity of the institution to meet its obligations to Council.

#### (c) Maturity Limitations

Maturity limitation shall depend upon whether the funds being invested are considered short or long term. Generally all funds shall be considered short term. Therefore investments shall be limited to maturities not exceeding 90 days, except for long service leave funds.

### 3. Return Objectives

The return on funds invested will be optimised subject to an acceptable level of risk. The return objectives are to ensure investment returns are to be equivalent or better than Council's interest rate benchmark.

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### 4. Investment Products

Investment returns are calculated as total return including interest earned, premiums, discounts fees and other costs. Different products have differing levels of use, particularly and derivability at different times of the economic cycle. It is the responsibility of the delegated officer to manage the investment by using these products to the best advantage while operating in the context of this policy. Potential products for consideration include:

- (a) **Cash/11am – Short term Instrument.** Cash funds are invested on overnight deposit each business day. Notice of withdrawal of funds to be submitted to the bank on the day of deposit.
- (b) **Term Deposit – Short term Instrument** - One of the most common types of investments, term deposits are offered by all banks and are competitive.
- (c) **Commercial Bill – Short term Instrument** - Commercial bank bills are highly negotiable products which are sold at a discount to their face value. The relevant bank/acceptor undertakes to pay the investor the face value upon maturity. Bank bills generally offer a higher rate of return than bank deposits.
- (d) **Floating Rate Notes – Long Term Instrument** - Floating rate notes are available for terms of 1-3 years with regular coupons (usually quarterly). The interest rate is set at the beginning of the period and is paid in arrears. It is normally set at a margin over the 90 day Bank Bill Swap Rate (BBSW).
- (e) **Fixed Rate Notes – Long Term Instrument** - This product is most useful if initiated before interest rates begin to fall. The coupon payment is typically set close to the prevailing interest rate for the applicable maturity at the time of issue.
- (f) **Transferable Investment Certificate (TIC) – Long Term Instrument** - An investment agreement in the form of a transferable bearer certificate evidencing the holder's beneficial ownership of the underlying bearer security. The TIC is a product specially designed for investors who require a secure, flexible and liquid investment with opportunities for high yields.
- (g) **Government Securities – Long Term Instrument** - Long dated maturities with a sovereign debt rating. These are considered to be the most resilient investments in regards to adverse market movements. As a result of the extremely high credit ratings, these bonds have a low return in terms of yield.

#### (h) Investments that comply with section 143 of the Local Government Act 1989

Product	s 143(a)	s 143(b)	s 143(c)	s 143(e)
Cash/11am			√	√
Term Deposit			√	
Commercial Bill			√	
Floating Rate Notes			√	
Fixed Rate Notes			√	
TIC			√	
Government Securities	√	√		



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### 5. Prohibited Investments

- (a) Investing for speculative purposes is prohibited.
- (b) The following investments are also prohibited:
  - (i) Derivative based investments (excluding floating rates notes);
  - (ii) Principal only investment or securities that provide nil or negative cash flows;
  - (iii) Stand alone securities issued that have underlying futures, options, forward contracts and swaps of any kind; and
  - (iv) Any security issued in non-Australian currency.
- (c) The Director Corporate Governance may develop an additional list of prohibited investments.

### 6. Cash Management:

The following will apply to cash management practices:

- (a) Cash flow and cash balances will be reviewed daily.
- (a) Current bank accounts will be maintained with the principle of achieving as near as practical to a zero balance.
- (b) Sufficient funds to meet cash requirements will be invested in cash/11am short term investment.
- (c) The balance of surplus cash funds will be invested according to the guidelines in this policy.
- (d) All investments will be recorded in Council's investment register.
- (e) The investment register will record and track movement of investments, interest rates, interest received and maturity dates.
- (f) The investment register will be reconciled, at the end of each month, with the general ledger and the daily cash position statement.
- (g) Certificates must be obtained from the Counter Party confirming the amount of investment held on behalf of Council.
- (h) A report will be submitted to each ordinary meeting of Council giving the details of current investments and the return on investments for the financial year to date.

### RELATED POLICIES

*Development of Policy Documents, and Policy Guideline*

### RELATED LEGISLATION

*Local Government Act 1989*

*Local Government (Long Service Leave) Regulations 2002*



## Investment and Cash Management

### REFERENCES

Moirashire Council, *Instrument of (Sub) Delegation by Chief Executive Officer*

### REVIEW

This policy will be reviewed three years from the date of adoption, with operational amendments as required, in accordance with Council's approval.