Mildura Rural City Council

Investment Policy

Policy – CP047

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1. The purpose of this policy is

This policy sets out Mildura Rural City Council's guidelines for the investment of surplus funds.

2. Policy Statement

Council recognises that it is important to maximise return on investments while maintaining an acceptable level of risk.

3. Policy Application

This policy applies to investments made by Council Officers (specifically Financial Services), in accordance with the requirements of Section 143 of the *Local Government Act 1989* (the Act). The Council will always abide by these legislative requirements (see below), while enhancing the management of Council's investment activities with additional requirements detailed in this policy.

4. Section 143 of the *Local Government Act 1989*

A Council may invest any money:

- in government securities of the Commonwealth
- in securities guaranteed by the Victorian Government
- within an authorised deposit-taking institution
- with any financial institution guaranteed by the Victorian Government
- on deposit with an eligible money market dealer within the meaning of the *Corporations Act*
- in any other manner approved by the Minister, after consultation with the Treasurer, either generally or specifically, to be an authorised manner of investment for the purposes of the sub-section.

5. Principles

- Business risk is the most critical principle in the investment of funds. Therefore, the return of capital must be considered above all else.

- Commercial/Bank Bills rank as an unsecured creditor in the event of bankruptcy or winding up, unless the deposit falls within the Government Guarantee (see below).

- In order to achieve the Policy Statement, Council must take into consideration all of the following factors when carrying out investment functions:

  i) Existence of Guarantee and Security

  ii) Credit Ratings

  iii) Interest Rate

  iv) Social or Community Benefit

  i) Existence of Guarantee and Security

  Determine whether the investment is guaranteed by:

  - The Institution or Bank
  - The Commonwealth Investment Guarantee Scheme.

  The Commonwealth Investment Guarantee Scheme covers deposits below the $250,000 limit.

  For a full list of institutions or banks covered under this scheme, refer to the Apra.gov.au List of Authorised Deposit-Taking Institutions covered under the Financial Claims Scheme.

  ii) Credit Ratings

  The credit rating of an institution or product does not require consideration where the investment falls within the ambit of the Commonwealth Government Guarantee Scheme. Refer to point (5) (i) above.

  Standard & Poor’s (S&P Global) credit ratings will be utilised when determining the viability of the issuer. Refer to Appendix (i) below.

  The preferred minimum credit rating Council will accept from a bank or non-bank financial institution will be A1- as they have a strong capacity to pay. However, due to the strength of the Australian Financial System, investment in ‘investment grade’ products, BBB or greater, is regarded as a prudent level for an Australian Bank. Any ratings below this level are considered too uncertain.

  The preferred minimum credit rating Council will accept for short-term products is A1+ and long-term products AA-. A1+ is classified by S&P as having ‘an extremely strong’ short-term capacity to pay, and AA- as a ‘very strong’ capacity to pay. Due to the strength of the Australian financial system, investments with a rating of BBB or greater are regarded as prudent.

The acceptable rating will depend on economic conditions in Australia. Should they deteriorate, shifting investments to institutions with an A1 credit rating and/or higher credit rating is advised.

iii) Interest Rate

Although credit interest or return on investment is a major factor in decision making, consideration must also be given to any bank fees applicable to transferring funds between Institutions.

iv) Social or Community Benefit

Investment with certain financial institutions affords social or community benefit in terms of partnerships in community projects. This should be taken into consideration when evaluating investment alternatives.

- Given that Council's Cash Flow forecasts and Strategic Resource Plan cover a 10-year period, and the philosophy that investment funds should be reasonably accessible and not have maturity dates that are too long-term, the maximum maturity period permitted is five years.

- Council will invest in accordance with s.143 of the *Local Government Act 1989* and specifically in the following: ("Short-term" or "Long-term" is determined by the term to maturity. See Section 7 Definitions).

Short-term:	At Call Account Term Deposits Commercial Bills Promissory Notes Floating Rate Notes
Long-term:	Floating Rate Notes Medium Term Notes Callable Range Notes Mortgage Backed Securities Semi/Government Bonds Government Bonds

- Council will not invest greater than 45 per cent of its annual average investments in one financial institution.

- Council may not invest greater than 20 per cent of its annual average investments in non-bank financial institutions. (This is not to include Government Bond investments.)

- Not less than three quotations shall be obtained in order to make an investment decision. A third-party service provider can be utilised to provide quotations or investment options. However, evidence must be recorded on how Council came to the investment decision.

- Council's Financial Services Branch will maintain a current list, being not more than three months old, of short- and long-term paper ratings. If any of the funds/securities held are downgraded, such that they no longer fall within the guidelines to this policy, the investment will be divested within 30 days or as soon as practicable.

- All new investments that equate to a value of greater than 10 per cent of Council’s annual average investments require Chief Executive Officer approval.

- To ensure compliance with Conflict of Interest rules outlined in the *Local Government Act 1989*, staff will ensure they are aware of and abide by the Conflict of Interest rules. If a staff member establishes that they hold a conflict of interest, they will complete the Disclosure of Conflict of Interest form and remove themselves from the process. The disclosure form will be forwarded to the Governance and Risk Unit for processing.

6. Who is responsible for implementing this policy?

The General Manager Corporate Services is responsible for implementing this policy.

Any investments that fall outside the parameters of this policy will be subject to a report to Council.

7. Definitions

Surplus funds	The cash available in Council’s bank account that is not essential in satisfying monthly cash flow requirements.
Short-term	Investment term to maturity of up to and including 90 days (three months).
Long-term	Investment term to maturity of greater than 90 days (three months).
Non-bank financial institution	A financial institution that does not have a full banking licence or is not supervised by a national or international banking regulatory agency. They may offer some loans and financial products but don’t operate as full bank. Examples will include insurance firms, venture capitalists, currency and securities exchanges.

8. Legislation and other references

8.1 Legislation

For further information related to this policy see:

- Section 143 of the *Local Government Act 1989*.

8.2 Documents

This policy is implemented in conjunction with the following documents:

- Standard and Poor’s Ratings Levels
- Apra – List of Authorised Deposit-taking Institutions

8.3 Risk Assessment Reference

Please tick the corporate risk(s) that this policy is addressing.

Risk Category	✓	**Risk Category**	✓
Asset Management		Financial Sustainability	✓
Committees		Human Resource Management	
Compliance – Legal & Regulatory		Leadership & Organisational Culture	
Contract Management		Occupational Health & Safety	
Contract Tendering & Procurement		Organisational Risk Management	✓
Corporate Governance	✓	Project Management	
Environmental Sustainability		Public Image and Reputation	

APPENDIX (i)

STANDARDS & POOR CREDIT RATINGS

Summary:

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

Definitions:

Short-Term Issue Credit Ratings	
Category	Definition
A-1	A short-term obligation rated 'A-1' is rated in the highest category by S&P Global Ratings. The obligor's capacity to meet its financial commitments on the obligation is strong. Within this category, certain obligations are designated with a plus sign (+). This indicates that the obligor's capacity to meet its financial commitments on these obligations is extremely strong.
A-2	A short-term obligation rated 'A-2' is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher rating categories. However, the obligor's capacity to meet its financial commitments on the obligation is satisfactory.
A-3	A short-term obligation rated 'A-3' exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to weaken an obligor's capacity to meet its financial commitments on the obligation.
B	A short-term obligation 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	A short-term obligation rated 'C' is currently vulnerable to nonpayment and is dependent upon favorable business, financial, and economic conditions for the obligor to meet its financial commitments on the obligation.
D	A short-term obligation rated 'D' is in default or in breach of an imputed promise. For non-hybrid capital instruments, the 'D' rating category is used when payments on an obligation are not made on the date due, unless S&P Global Ratings believes that such payments will be made within any stated grace period. However, any stated grace period longer than five business days will be treated as five business days. The 'D' rating also will be used upon the filing of a bankruptcy petition or the taking of a similar action and where default on an obligation is a virtual certainty, for example due to automatic stay provisions. A rating on an obligation is lowered to 'D' if it is subject to a distressed exchange offer.

Summary:

LONG TERM:

AAA	Extremely Strong Capacity to Pay
AA+	
AA	Very Strong Capacity to Pay
AA-	
A+	
A	Strong Capacity to Pay
A-	
BBB+	
BBB	Adequate Capacity to Pay
BBB-	
BB+	
BB	Uncertainties or Adverse Conditions could lead to Inadequate Capacity to Pay
BB-	
B+	
B	Adverse Conditions Likely to Impair Capacity to Pay
B-	
CCC	Vulnerable to Default
C	High Risk of Default
D	Default

Definitions:

Long-Term Issue Credit Ratings*	
Category	**Definition**
AAA	An obligation rated 'AAA' has the highest rating assigned by S&P Global Ratings. The obligor's capacity to meet its financial commitments on the obligation is extremely strong.
AA	An obligation rated 'AA' differs from the highest-rated obligations only to a small degree. The obligor's capacity to meet its financial commitments on the obligation is very strong.
A	An obligation rated 'A' is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher-rated categories. However, the obligor's capacity to meet its financial commitments on the obligation is still strong.
BBB	An obligation rated 'BBB' exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to weaken the obligor's capacity to meet its financial commitments on the obligation.
BB, B, CCC, CC, and C	Obligations rated 'BB', 'B', 'CCC', 'CC', and 'C' are regarded as having significant speculative characteristics. 'BB' indicates the least degree of speculation and 'C' the highest. While such obligations will likely have some quality and protective characteristics, these may be outweighed by large uncertainties or major exposure to adverse conditions.
BB	An obligation rated 'BB' is less vulnerable to nonpayment than other speculative issues. However, it faces major ongoing uncertainties or exposure to adverse business, financial, or economic conditions that could lead to the obligor's inadequate capacity to meet its financial commitments on the obligation.
B	An obligation rated 'B' is more vulnerable to nonpayment than obligations rated 'BB', but the obligor currently has the capacity to meet its financial commitments on the obligation. Adverse business, financial, or economic conditions will likely impair the obligor's capacity or willingness to meet its financial commitments on the obligation.
CCC	An obligation rated 'CCC' is currently vulnerable to nonpayment and is dependent upon favorable business, financial, and economic conditions for the obligor to meet its financial commitments on the obligation. In the event of adverse business, financial, or economic conditions, the obligor is not likely to have the capacity to meet its financial commitments on the obligation.
CC	An obligation rated 'CC' is currently highly vulnerable to nonpayment. The 'CC' rating is used when a default has not yet occurred but S&P Global Ratings expects default to be a virtual certainty, regardless of the anticipated time to default.
C	An obligation rated 'C' is currently highly vulnerable to nonpayment, and the obligation is expected to have lower relative seniority or lower ultimate recovery compared with obligations that are rated higher.
D	An obligation rated 'D' is in default or in breach of an imputed promise. For non-hybrid capital instruments, the 'D' rating category is used when payments on an obligation are not made on the date due, unless S&P Global Ratings believes that such payments will be made within five business days in the absence of a stated grace period or within the earlier of the stated grace period or 30 calendar days. The 'D' rating also will be used upon the filing of a bankruptcy petition or the taking of similar action and where default on an obligation is a virtual certainty, for example due to automatic stay provisions. A rating on an obligation is lowered to 'D' if it is subject to a distressed exchange offer.
***Ratings from 'AA' to 'CCC' may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the rating categories.**	