

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 103 of the Local Government Act 2020 (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 103 of the Local Government Act 2020

A Council may invest any money:

- In Government securities of the Commonwealth
- In securities guaranteed by the Government of Victoria
- Within 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
- 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 subsection.

5. Principles

- Financial Risk is the most critical principle in the financial management principles which includes the investment of funds. Financial risk includes any risk relating to:

- the financial viability of the Council
- the management of current and future liabilities of the Council
- the beneficial enterprises of the Council.

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 and they are not an approved investment type. (See below).
- 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
- V) Environmentally sustainable investments

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 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 AA- 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 acceptable rating will depend on economic conditions in Australia. Should they deteriorate then shifting investments to institutions with A1 credit rating and/or higher credit rating products 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.

- v) Environmentally sustainable investments
 - Council understands that climate change is an extreme risk, not only for Australia but also Mildura Rural City Council. It presents potential financial risk that could lead to serious economic and social consequences. Therefore, Council will consider financial investments that are listed as environmentally sustainable.

- Given that Council's Cash Flow Forecasts and Long-Term Financial Plan covers 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 (5) years.

- Council will invest in accordance with s.103 of the Local Government Act 2020 and specifically consideration of the Standards and Poor Credit Ratings (see Appendix i). The following are classified as short-term and long-term investment types:
 - SHORT TERM:
 - 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% of its annual average investments in one financial institution.

- Council may not invest greater than 20% 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 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 Department will maintain a current list, being not more than three (3) 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 reinvestments and new investments up to a value of \$10 million, will require approval of the Financial Services Coordinator and/or the Manager Financial Services.

All reinvestments and new investments which equate to a value greater than \$10 million on any single day will require the approval of the Manager Financial Services and General Manager Corporate.

- To ensure compliance with Conflict-of-Interest rules outlined in the Local Government Act 2020, staff will ensure they are aware of and abide by the Conflict-of-Interest rules. If a staff member establishes 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 which is not essential in satisfying monthly cash flow requirements.
Short Term	Investment term to maturity of up to and including 90 days (3 months).
Long Term	Investment term to maturity of greater than 90 days (3 months).
Non-Bank Financial Institution	A financial institution that does not have a full banking license 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 103 of the Local Government Act 2020.

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

AAA	Investment Grade: Extremely strong capacity to meet financial commitments
AA	Investment Grade: Very strong capacity to meet financial commitments
A	Investment Grade: Strong capacity to meet financial commitments, but somewhat susceptible to economic conditions and changes in circumstances
BBB	Investment Grade: Adequate capacity to meet financial commitments, but more subject to adverse economic conditions
BB	Speculative Grade : Less vulnerable in the near-term but faces major ongoing uncertainties to adverse business, financial and economic conditions
B	Speculative Grade : More vulnerable to adverse business, financial and economic conditions but currently has the capacity to meet financial commitments
CCC	Speculative Grade : Currently vulnerable and dependent on favorable business, financial and economic conditions to meet financial commitments
CC	Speculative Grade : Highly vulnerable; default has not yet occurred, but is expected to be a virtual certainty
C	Speculative Grade : Currently highly vulnerable to non-payment, and ultimate recovery is expected to be lower than that of higher rated obligations
D	Speculative Grade : Payment default on a financial commitment or breach of an imputed promise; also used when a bankruptcy petition has been filed