

6.3.5 Revised Investment Policy

File Reference: Nil.
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Recommendation(s)

That Council endorses the revised investment policy.

Attachments

1. Revised Investment Policy [6.3.5.1 - 5 pages]

Executive Summary

The revised investment policy sets out the overarching framework for Council to invest surplus funds from current cashflow requirements. The funds are to be invested while maintaining a balanced risk profile, with a view to maximise return on investment. The investment portfolio will be managed with the view to maintain Council's commitment towards the Climate emergency action.

Background

Council's investment policy sets out practices and guidelines on how Council manages surplus cash to achieve best return on investment, balanced with risk exposure. The existing policy was adopted in 2015. With the current pandemic and an ongoing market downturn, the interest rates are at historic lows, reducing Council's investment options and ability to maximise returns. RBA has reduced its interest rate from 1% in July 2019 to 0.025% in July 2020, which is the lowest interest rate in RBA's history.

Council declared a climate emergency in September 2019, with a resolution to investigate a move away from financial institutions that fund the fossil fuel industry. Investment of funds with Authorised Deposit-Taking Institutions (ADI) that are not funding fossil fuel companies is a step consistent with the resolution.

Key changes from existing investment policy are as follows:

1. Extend maximum term to maturity from 3 months to 12 months

Our existing policy only allows investment for up to 3 months. This timeframe is very short and restricts the Council to achieve better returns as a lot of banks shy away from small term deposits due to the borrowing cost involved for the bank. Our recent experience with the banks and data received from market updates is that the rates are much more attractive for terms ranging from 6, 9 or 12 months. Our market analysis and dealings with a variety of institutions gives us confidence of achieving a better return on investment by extending the investment term up to 12 months. We have enhanced and will continue to further refine our cash flow monitoring and projection through our improved reporting and analysis model, forecasting practices and building a rolling investment maturing schedule.

2. Expand the current range of eligible investment institutions from Big 4 banks plus Bendigo Bank only to also include authorised deposit-taking institutions (ADIs) with Long Term Standard & Poor (S&P)/Fitch credit ratings starting from BBB to AAA.

In the existing policy, Council is only prescribed to invest in Big 4 banks and Bendigo Bank. A review of the latest S&P/Fitch Long Term credit ratings showed several ADIs offering greater investment returns with low risk exposures, that is, BBB rating or above. The institutions we invest with currently offer rates between 0.46% to 0.79%, whereas some other AAA rated banks outside our prescribed banks are offering up to 1.15% for 12 months, which is 36 basis points higher. This is a consistent trend. On a \$5 million dollar deposit over 12 months, an additional \$18K interest income could be earned. The additional flexibility in eligible investment institutions would provide an opportunity for higher returns on Council's \$70-100 million portfolio, while maintaining a balanced risk approach.

In the revised Investment policy, a threshold of a maximum total investments is applied to control Council's risk exposures according to ADI credit ratings. For example, all investments with BBB to BBB+ ADIs cannot exceed 50% of the total investment, whereas AA- to AAA investments can account for a maximum of 100%. In addition, the spread of investments would be limited to no more than 40% of the investment portfolio with any single institution when the portfolio is above \$4 million.

As our current policy is limited to five institutions, we are not able to take advantage of more competitive rates offered by other ADIs within our risk tolerance. We recommend Council allow an extension in our investment options to include ADIs with S&P/Fitch Long Term credit ratings of BBB and above within our maximum total investment threshold.

3. Specify a minimum of 25% total investments value be placed with approved ADIs currently not funding fossil fuel industry.

Adopting an investment policy that includes ADIs currently not funding fossil fuel industry supports Council's commitment to the climate emergency. There are a number of ADIs within the proposed new Long Term S&P/Fitch credit ratings that have no current record of funding fossil fuels, while maintaining competitive investment rate offerings like ME Bank, Bendigo Bank and Rabo bank.

However, based on research, ADIs with no current record of funding fossil fuels are mostly in lower level credit ratings, for example, Bendigo Bank BBB+, ME Bank BBB+ and Defence Bank BBB. Although the probability is very low that ADIs default on repayment of Council investments or fall into liquidation, lower credit rating ADIs have a higher risk to be invested in compared to ADIs with better credit ratings. Therefore, it is prudent for Council to spread investments into different ADIs with different levels of credit ratings and not to put all investments into BBB+ or lower ADIs. Therefore, we recommend a minimum 25% investment allocation to such ADIs to be part of Council's divestment of fossil fuels industry exposure strategy and a maximum 50% of total investment can be placed in BBB to BBB+ credit rating category.

4. Provide Council with the option to use an investment broker or advisor to optimise investment returns and administrative efficiency.

There are numerous investment brokers in the market used by ADIs to attract funds with better interest rates. These investment brokers provide access to rates that are not directly available to Council. Investment of council funds through investment brokers does not change the nature of Council investments with ADIs. Council will continue to transfer the funds directly into the ADI's account. There will be no transfer to a broker's account, thus eliminating the risk of funds misdirection.

Investing through brokers or advisors will allow Council to secure better returns and enhance investment efficiency. Current practice is to reach out to each bank for their quotes individually, which is time consuming and can limit the reach to a few banks. Using the services of a broker or advisor will provide access to multiple rates through a single avenue. It is proposed to use online investment platforms to manage Council's investment portfolio, which would allow Council to manage the funds efficiently and expand the options by capitalising on time limited promotional offers and real time opportunities.

Policy Implications

This policy is to be read in conjunction with Section 143 – (Investments) of the *Local Government Act 1989* (as amended), which sets out the requirements in relation to the Financial Institutions with whom a Council may invest.

The current policy has not been reviewed since May 2015 and it is a good opportunity to review and update.

Relevance to Council Plan

Investing council funds in ethical and responsible way is in line with the long-term financial sustainability plan. Investment policy meets the following Council plan objectives:

5.3.1 Make financial decisions that achieve the objectives of Council and long-term financial sustainability.

5.3.2 Make financial decisions that are fair and ethical and balance costs and benefits between present and future generations.

5.3.3 Manage the municipality's finances and assets in a responsible way.

Climate Emergency Consideration

Nil.

Consultation/Communication

The revised policy was developed internally by the Finance team and consulted with the Senior Leadership Team for their guidance and input.

Financial and Resource Implications

The revised Investment policy aims to achieve improved returns and enable investment strategy aligned with Council's commitment to the Climate emergency action in an ethical, responsible and efficient manner.

Conclusion

Request the Council to endorse the revised Investment policy to manage Council funds.



Revised Investment Policy

HPRM number	Click to enter HPRM reference number		
Policy owner	Office of the CEO, administered by Finance		
Adopted by	Council		
Adoption date	Click to select date	Scheduled review date:	Click to select date
Publication	CardiNet		
Revision/version number	Version 2.0		

1 Policy alignment

The Investment Policy establishes the framework on investing council's surplus funds and managing the investment portfolio.

2 Purpose

The purpose of this investment policy is to provide guidelines to Council Officers in placing and managing investments in a manner which will

- Mitigate risks
- Maximise returns
- Ensure environmentally responsible approach according to Council's Business Plan
- Ensure Council complies with relevant statutory and legislative requirements
- Meet Council's daily operational cash flow requirements.

3 Scope

This policy applies to all funds invested on behalf of Cardinia Shire Council or any other entity of which the investments are managed by the staff of Cardinia Shire Council.

The Community Asset Committees funds are to be continued to be managed by the committees and are outside the scope of this policy.

4 Governing legislation and accounting standards

4.1 Legislation

Investments are to be managed in accordance with the requirements of the below legislations:

1. Local Government Act 1989 Part 7 – Financial management (S 143) states that:
A Council may invest any money -
 - (a) in Government securities of the Commonwealth; and
 - (b) in securities guaranteed by the Government of Victoria; and
 - (c) with an ADI; and
 - (d) with any financial institution guaranteed by the Government of Victoria; and
 - (e) on deposit with an eligible money market dealer within the meaning of the Corporations Act; and
 - (f) in any other manner approved by the Minister, either generally or specifically, to be an authorised manner of investment for the purposes of this section.
 These provisions are replicated in the Local Government Act 2020 (Section 103) and these provisions commence from 1 July 2021

2. Local Government Act 2020 – Division 4 – Financial management (S 101 – Financial Management Principles – Page 104) that requires Council
 - (a) revenue, expenses, assets, liabilities, investments and financial transactions must be managed in accordance with a Council's financial policies and strategic plans;
 - (b) financial risks must be monitored and managed prudently having regard to economic circumstances.
 This provision commenced on 6 April 2020.

3. Local Government (Planning and Reporting) Regulations 2014.

In addition to the above, Council requirements detailed in this policy are required to be met.

4.2 Accounting Standards

Council is required to comply with the following Accounting Standards

1. AASB 7 - Financial Instruments: Disclosures
2. AASB 9 - Financial Instruments
3. AASB 13 - Fair Value Measurement
4. AASB 132 - Financial Instruments: Presentation
5. AASB 136 - Impairment of Assets
6. AASB139 - Financial Instruments: Recognition and Measurement.

5 Policy description

5.1 Objectives

The primary objectives of Cardinia Shire Council Investment activities shall be:

- (A) **Safety**
Safety of principal is the foremost objective of the investment policy. Investments of Council shall be undertaken in a manner that seeks to ensure the preservation of capital.
- (B) **Liquidity**
Council's investment portfolio will remain sufficiently liquid to enable the organisation to meet all operating requirements which might be reasonably anticipated.
- (C) **Diversification**
The guidelines for the selection of a portfolio of specific investments are to establish the levels of credit quality and diversification by issuers / (Approved Deposit-taking Institutions – Please see Appendix I for the link to Register of AIDs).
- (D) **Market Competitiveness**
Achieve returns consistent with which is currently on offer throughout the broader market.
- (E) **Divestment (Responsibility towards environment)**
Place at least 25% of total investments with financial institutions that do not fund organisations engaged in the fossil fuel industry (please see Appendix I for the link to Financial Institutions not investing in organisations engaged with Fossil Fuel Industry).
- (F) **Compliance**
Comply with legislative requirements and accounting standards.

5.2 Investment guidelines

Types and timing of investments

Council funds should be invested in the following way:

1. All day to day cash needs of the Council shall be maintained in the Council's nominated bank's operating account. To maximise interest on investments, all identified excess funds are to be transferred on a regular basis to the Council's nominated bank's appropriate short-term cash management account (or like).
2. Funds identified as excess funds for a period of more than 45 days to be invested in term deposits. Where appropriate council will stagger the maturity dates of the Term Deposits to ensure competitive interest rates and liquidity.
3. For administrative ease and control individual investment amounts should be in multiples of \$500,000.
4. To facilitate investment spread the Council's nominated operating trading account and short-term cash management account should not be considered as a Term Deposit.

5. In situations where the 30 day term deposit rate being offered by the Council's approved Term Deposit providers is lower than the interest rate available in the Council's nominated short term cash management account then it is acceptable to retain the funds in the relevant cash management account.
6. Council may place and manage investments through an investment broker to obtain better interest rates that will benefit the council.

Diversification by Financial Institution

1. Diversification by institutions will be monitored on a regular basis.
2. As a guideline, the spread of investments will be limited to no more than 40% of the investment portfolio when the portfolio is above \$4 million, with any single institution.
3. Where the exposure limit of a single institution is exceeded because of an investment being redeemed, the exposure limits are to be adjusted at the next available opportunity when funds can be reinvested
4. It is required that a minimum of 25% of total investments be placed with approved ADIs that are not currently funding businesses engaged with fossil fuel industry.
5. Prior to making any investment decisions, the relevant council officer should obtain bids or offers from at least three ADIs meeting the guidelines outlined in this investment policy. The relevant council officer should accept the bid or offer which provides the highest rate of return within the maturity required and consistent the overall parameters of this policy.
6. Table below illustrates the selection criteria for ADIs and the relevant thresholds that are required to be met

Short Term Rating	Long Term Rating	Maximum Term to Maturity	Maximum Percentage of Total Cash and Investments
Fitch/ Standard & Poors (S&P)	Fitch/ Standard & Poors (S&P)		
A1+	AAA to AA-	1 Year	100%
A1	A+ to A-	1 Year	75%
A2	BBB+ to BBB	1 Year	50%

DCP Investments and Cash Balances

Cash balances relating to Developer Contribution Plans (DCP) are held separately from the Council's operating funds. All the rules and guidelines relating to nominated banks and accounts apply to these funds.

5.3 Responsibilities

Decisions on investments such as placing new investments including term deposits, reinvestment decisions and investment redemption decisions are to be made by the Executive Manager, Office of the CEO, or Chief Finance Officer as per council's delegation register and are to be actioned by any of one of the following officers:

- Team Leader, Financial Planning, Analysis and Systems
- Coordinator, Financial Planning and Performance
- Management Accountant.

6 Related documents

Type of document	Title
Commonwealth/Victorian legislation	Local Government Act 1989
Policies	Previous Investment Policy

7 Appendix

Appendix I – Links

Type	Link
Financial Institutions funding fossil fuel related businesses	https://www.marketforces.org.au/info/compare-bank-table/#table
Register of AIDs (Authorised Deposit-taking Institutions)	https://www.apra.gov.au/register-of-authorised-deposit-taking-institutions