

ATTACHMENT TO AGENDA ITEM

Ordinary Meeting

19 August 2014

Agenda Item 8.1 Investment and Cash Management Policy

Attachment 1 Investment and Cash Management Policy 34.POL1219

GREATER SHEPPARTON CITY COUNCIL

Policy Number
34.POL1

INVESTMENT AND CASH MANAGEMENT POLICY

Version
2.0

Adopted: To be Confirmed
Last Reviewed June 2014

Business Unit:	Business
Responsible Officer:	Manager Finance and Rates
Approved By:	Greater Shepparton City Council
Next Review:	July 2017

PURPOSE

Council is committed to ensuring that its investments and cash are managed in an appropriate, open and transparent manner.

This policy provides guidance on the effective and responsible utilisation of Council's surplus cash funds in accordance with the legislative framework.

Particular emphasis is placed on investment decisions that manage exposure to risk and optimise return on investment whilst ensuring sufficient liquidity for Council's operational needs.

OBJECTIVES

The objectives of this policy are to ensure that:

- All funds are invested in accordance with legislative requirements and Council policy.
- Effective internal controls are in place to minimise investment risk and unauthorised appropriation of Council funds.
- All investment transactions are appropriately authorised and documented.
- The primary objective of investment decisions is the security of funds by managing exposure to risk.
- Return on investment is to be achieved whilst ensuring sufficient liquidity for Council's day to day operational commitments.

SCOPE

This policy applies to all funds invested on behalf of Greater Shepparton City Council.

The Council also manages investments on behalf of the following entities:

- Goulburn Valley Regional Library Corporation
- Goulburn Valley Regional Waste Management Group
- Pine Lodge Cemetery
- Kialla West Cemetery

It is acknowledged that investments on behalf of these entities are not likely to be of similar magnitude to Council funds. Whilst the general principals of this policy will apply, it is recognised that individual entity's investments cannot be managed under the same investment parameters specified in this Policy.

DEFINITIONS

Credit Rate Risk:	The risk of losing invested funds should Standard and Poors credit worthiness rating of a financial institution proves to be unreliable.
Interest Rate Risk:	The variability in return caused by movements in interest rates – Council would be susceptible to this risk if the funds are invested at a fixed rate for a long period and investment rates moved upwards.
Liquidity Risk:	The risk that Greater Shepparton City Council funds required to fund operations are considerably greater than budgeted thus eroding the level of funds available to invest.

POLICY**1. Investment Objectives**

a) Council's overall objective is to preserve its cash assets whilst investing its surplus funds at the best interest rate available giving due consideration to risk and cash flow, whilst working within the parameters of this policy.

b) In regard to priority, the order of investment activities shall be

- Preservation of capital,
- Liquidity of cash flow and
- Investment return.

2. Preservation of Capital

a) Preservation of capital shall be the principal objective of the investment portfolio. Investments are to be made in a manner that seeks to ensure security of principal. This includes managing credit rate risk.

3. Maintenance of liquidity

a) The investment portfolio will maintain sufficient liquidity to meet all reasonably anticipated operating cash flow requirements of Council, as and when they fall due, without incurring significant transaction costs due to the need to sell an investment before maturity.

b) The term to maturity of any Council investment may range from "at call" to one year, taking into account anticipated cash requirements and prevailing market conditions at the time of the investment.

4. Return on Investments

a) Investment returns are to be maximised within the parameters of this Policy. Not less than three quotations shall be obtained from authorised deposit taking institutions whenever an investment or renewal of an investment is proposed.

5. Portfolio Investment Parameters and Credit Requirements

a) The following table shows allocation restrictions and investment limits. It provides current Standard & Poor's credit ratings per category, investment limits for the total amount invested with each institution and investment proportions of total investment portfolios.

Standard & Poors Short Term Rating	Individual Institution Limit ¹	Maximum Investment Proportion
A1+	40%	100%
A1	30%	100%
A2	15%	40%

b) In addition to the data contained in the above table, an upper limit of \$2 million can be invested with the Goulburn Murray Credit Union.

c) If redemption of funds causes a shift in percentage of funds held with any single investment body to the counterparty limit, investments will be returned to correct the imbalance at either the next available maturity date or a period of six months, whichever is the earlier of the two.

d) A Standard & Poor's issue credit rating is a forward-looking opinion about the creditworthiness of an obligor with respect to a specific financial obligation, a specific class of financial obligations, or a specific financial program taking into consideration the creditworthiness of guarantors, insurers, or other forms of credit enhancement on the obligation and takes into account the currency in which the obligation is denominated.

e) Issue credit ratings can be either long-term or short-term. Short-term ratings are generally assigned to those obligations considered short-term in the relevant market i.e. obligations with an original maturity of no more than 365 days.

f) A current list of Short Term ratings of all institutions being not more than six months old will be maintained. If an existing Council investment falls below the minimum rating level, Council will withdraw funds immediately.

g) The following details the Standard and Poors Short Term Issue credit ratings:

A1+ A short-term obligation rated 'A1+' is rated in the highest category by Standard & Poor's. This indicates that the obligor's capacity to meet its financial commitment on these obligations is extremely strong.

¹ This includes non-investment amounts, e.g. cash at bank.

A1 A short-term obligation rated 'A1' indicates the obligor's capacity to meet its financial commitment on the obligation is strong.

A2 A short-term obligation rated 'A2' 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 commitment on the obligation is satisfactory.

6. Authorised Investments

a) Only the following direct investments denominated in Australian currency are acceptable for surplus Council funds:

- Cash/At-Call with Councils main banking institution
- Term deposits with authorised deposit-taking institutions such as licensed banks and Standard & Poor's rated credit unions
- Term deposits with the Goulburn Murray Credit Union

7. Internal Controls

a) Internal controls and processes are to be maintained to ensure investment objectives are met and that the investment portfolios are protected from loss, theft or inappropriate use.

8. Delegations

a) Authority for implementation of the Policy is delegated by the Council to the Chief Executive Officer in accordance with the Local Government Act 1989.

b) Authority for the day-to-day management of the Council's investment portfolio may be delegated by the Chief Executive Officer to Council Officers.

RELATED POLICIES AND DIRECTIVES

- Nil

RELATED LEGISLATION

- All investments shall comply with the Local Government Act 1989 in particular Sections 136 and 143
- All investments shall comply with relevant regulations and guidelines or directions issued by the Victorian Local Government Minister or Local Government Victoria.

REVIEW

This policy will be reviewed by the Manager Finance and Rates within four years from date of adoption.

This policy replaces the Investment and Cash Management Policy 34.POL1 (previously policy number 34.610.01.02) adopted by Council in June 2009.

Gavin Cator
Chief Executive Officer

Date

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GREATER SHEPPARTON CITY COUNCIL

Adopted: To be confirmed

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Investment and Cash Management Policy