

# Cash Management Policy

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<b>Related legislation:</b>	<ul style="list-style-type: none"> <li>Local Government Act 2020</li> </ul>		
<b>Related strategic documents, policies, or procedures:</b>	<ul style="list-style-type: none"> <li>Council's Financial Authorisations and Delegations</li> <li>Australian Accounting Standards – AASB 139: Financial Instruments – Recognition and Measurement</li> </ul>		

Date	Version Number	Details of Version	Modified by
02/01/2023	5	Review, update and re-adoption	Management Accountant
15/10/2019	4	Review, update and re-adoption	Management Accountant
13/04/2016	3	Review, include fossil fuel divestment and re-adoption	Director Corporate Support
24/05/2015	2	Review, update and re-adoption	Director Corporate Support
8/05/2012	1	Adoption	Director Corporate Support

## 1. Purpose

The purpose of this policy is to provide guidance to officers managing, investing, and redeeming Council's funds to maximise earnings whilst managing risk, ensuring the security of Council funds and compliance with the *Local Government Act 2020* (the Act).

## 2. Scope

This policy covers the investment of any Council funds and applies to any Council officer who has responsibility for funds management.

## 3. Policy

Appropriate investment of Council funds should result in maximising earnings whilst managing the risks involved in the investment, and ensuring that Council funds are secure and available when required. The Act sets out requirements for the investment of Council funds and compliance with these requirements is mandatory.

Investments shall be made with good judgement and care, not for speculation, and considering the probable safety of the capital as well as the probable income to be derived.

### 3.1. Authority for Investment

All investments are to be made in accordance with Section 103 of the Act.

The Act states that a Council may invest any money:

- a) In Government securities of the Commonwealth.
- b) In securities guaranteed by the Government of Victoria.
- c) With an ADI (authorised deposit taking) institution.
- d) With any financial institution guaranteed by the Government of Victoria.
- e) On deposit with an eligible money market dealer within the meaning of the Corporations Act.
- 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.

### 3.2. Delegation of Authority

Approved officers that hold a delegation have the authority to invest funds under the supervision of the Director of Corporate and Community Services and the Chief Executive Officer.

All initial investments with a new institution must be approved by the Executive Manager Corporate Services in conjunction with either the Director of Corporate and Community Services or the Chief Executive Officer.

A new investment with an existing ADI, or rollover of existing investments with the same ADI, can be performed by appropriately delegated staff, provided the rollover will ensure continued compliance with this policy.

### 3.3. Authorised Investments

Authorised investments (to be denominated in Australian dollars) would include, but not necessarily be limited to:

- Local / State / Commonwealth Government bonds, debentures or securities.
- Deposits at call held with an eligible ADI.
- Term deposits issued by an eligible ADI.
- Negotiable certificates of deposit issued by an eligible ADI.
- Debt securities issued by an eligible ADI.

### 3.4. Liquidity

The investment portfolio will remain sufficiently liquid to enable Council to meet all known and expected operating requirements which might reasonably be anticipated. Section 3.5 - Risk Management Guidelines are considered along with expected cash flows, including capital works and loan redemptions.

### 3.5. Risk Management Guidelines

Council's investment portfolio will comply with three key criteria:

- a) Portfolio Credit Framework: limit the overall credit exposure of the portfolio.
- b) Counterparty Credit Framework: limit exposure to individual institutions.
- c) Term to Maturity Framework: limits based upon maturity of securities.

#### a) Policy – Portfolio Credit Framework

To control credit quality on the entire portfolio, the following credit framework limits the percentage of the portfolio, based upon Council's average annual balance, exposed to any Standard and Poor's (S&P), or equivalent, credit rating category:

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Overall Portfolio Credit Limits:

Long-Term Credit Rating	Short-Term Credit Rating	Maximum
A Category or above	A-1 and above	100% max
BBB Category	A-2	80% max
Below BBB Category	Below A-2	0%

Council will not invest with an institution with a Standard and Poors credit rating of lower than BBB, or unrated institutions.

## b) Policy – Counterparty Credit Framework

Exposure to an individual institution will be restricted by their S&P rating, or equivalent, so that single entity exposure is limited, as detailed in the table below:

Long-Term Credit Rating	Short-Term Credit Rating	Maximum (per institution)
AAA Category	A-1+	35%
AA Category	A-1	30%
A Category	A-1-	30%
BBB Category	A-2	25%
Below BBB Category	Below A-2	0%

- Council will not invest in an unrated institution or in an institution with a Standard and Poor's long-term credit rating of lower than BBB.
- The short-term credit rating limit will take precedence in the case of discrepancies between short and long-term ratings.
- If a credit rating of a security, or of the company/body issuing the security, falls below the required minimum, Council will make all necessary arrangements to withdraw deposits as soon as practical.
- Percentage limits are based on Council's actual core portfolio balance and exclude funds held at call in day-to-day operational accounts.
- The credit ratings definitions relate to the long- and short-term ratings as defined by Standard and Poor's (S&P). While this policy will reference the S&P ratings system criteria and format, equivalent ratings by Moody's and Fitch Ratings may be used (where available).

## c) Policy – Term to Maturity Framework

The investment portfolio is to be invested within the constraints of the following terms to maturity:

Overall Portfolio Term to Maturity Limits	
Portfolio % < 12 months	100% max; 60% min
Portfolio % > 12 months < 36 months	40% max
Portfolio % > 36 months	0%

### 3.6. Quotations

No less than three quotations shall be obtained from ADI's when a new investment is proposed. The best quote on the day will be successful after allowing for administrative and banking costs, as well as having regard to the limits set above under section 3.5 (a), (b) and (c) of this policy, and consideration of divestment.

### 3.7. Reporting

Accounting for investments will comply with Australian Accounting Standards (AAS), and the Act.

A report will be provided to Council detailing investment income versus budget year to date, investments undertaken including return rates and credit risk assessments, and the percent of investments that are held with institutions that divest from fossil fuels. This report is to be provided at least quarterly.

### 3.8. Fossil Fuel Divestment

Fossil fuel divestment is an attempt to reduce the effects of climate change by the institutional divestment of assets in companies involved in the financing or extraction of fossil fuels.

Council will provide preference to financial institutions that do not invest in or finance the fossil fuel industry where:

- The investment is compliant with overall portfolio credit limits and individual institution limits of this policy (sections 3.5a and 3.5b); and
- The rate of interest is greater than or equal to non-divested investments that may be on offer to Council at the time of investment.

### 3.9. Local Content

Council will provide preference to financial institutions that maintain a physical presence in the shire through a branch of their operations, where:

- The investment is compliant with overall portfolio credit limits and individual institution limits of this policy (sections 3.5a and 3.5b); and
- The rate of interest is greater than or equal to other investments that may be on offer to Council at the time of investment.

In terms of sections 3.8 and 3.9, where there is a conflict, divestment will take priority over local content.

## 4. Definitions of Abbreviations Used

A table of terms and their definitions as they relate to the policy.

Term	Definition
ADI	Authorised Deposit-taking Institution - an institution that is authorised under the Banking Act 1959 to accept term deposits and conduct banking activities in accordance with the Act. ADI's are under the prudential supervision of the Commonwealth Government's financial regulator the Australian Prudential Regulation Authority (APRA).

Long Term S&P Rating	Description
AAA category	Highest credit quality – this rating indicates the lowest expectation of credit risk. They are assigned only in the case of exceptionally strong capacity for payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.
AA category	Very high credit quality – this rating indicates expectations of very low credit risk. They indicate very strong capacity for payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
A category	High credit quality – this rating indicates expectations of low credit risk. The capacity for payment of financial commitments is considered strong. The capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions than is the case for higher ratings.
BBB category	Good credit quality – this rating indicates that there is currently an expectation of low credit risk. The capacity for payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions is more likely to impair this capacity. This is the lowest long-term investment-grade category.

Short Term S&P Rating	Description
A-1 category	A short-term obligation rated 'A-1' is rated in the highest category by Standard & Poor's. The obligor's capacity to meet its financial commitment 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 commitment on these obligations is extremely strong.
A-2 category	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 commitment on the obligation is satisfactory.
A-3 category	A short-term obligation rated 'A-3' exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation.

## 5. Human Rights Statement

### Human Rights Statement

It is considered that this policy does not impact negatively on any rights identified in the *Charter of Human Rights and Responsibilities Act (2006)*.