

## Investment Policy

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|--------------------------|-----------------------------|
| Policy Classification    | - <b>Finance</b>            |
| Policy N°                | - <b>POL/421</b>            |
| Policy Status            | - <b>Current</b>            |
| Responsible Service Unit | - <b>Financial Services</b> |
| Authorised by            | - <b>Council</b>            |
| Date Adopted             | - <b>25 August 2020</b>     |
| Next Review Date         | - <b>August 2024</b>        |

*This policy is part of a suite of policies adopted by Council or the Executive Management Team (EMT).*

*New or replacement policies can be created and developed within Service Units but can only be added to Council's Policy Register by Governance Services following the approval of the policy by Council or the EMT.*

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## 1. PURPOSE

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- 1.1. The purpose of this Policy is to provide a framework for the optimum investment of Manningham City Council's funds at the most favourable rate of interest available to it at the time, whilst having due consideration of risk, liquidity and security for its investments.
- 1.2. This Policy recognises the legislative requirements and obligations for the investment of Council's funds. It is Council's intention to comply with investment regulations and directions of the Local Government Act 2020, and where inconsistent, the Policy is to be read as subject to these.
- 1.3. Consideration is to be given to the preservation of capital, liquidity and return of investments with the primary objectives of for the investment portfolio being:
  - 1.3.1. Compliance with legislation, regulations and other guidelines issued by the Minister;
  - 1.3.2. Preservation of the amount invested;
  - 1.3.3. To ensure there is sufficient funds to meet all reasonably anticipated cash flow requirements; and
  - 1.3.4. To maximise the return on invested funds, including meeting or exceeding the performance benchmarks in this policy while minimising risk of loss.

## 2. POLICY STATEMENT

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- 2.1. Prudent person
  - 2.1.1. The investments will be managed with the care, diligence and skill that a prudent person would exercise. As trustees of public monies, officers are to manage Council's investment portfolios to safeguard the portfolio and not invest for speculative purposes.
- 2.2. Ethics and conflict of interest
  - 2.2.1. Officers shall refrain from personal activities that would conflict with the proper execution and management of Council's investment portfolio. This

Policy requires officers to disclose any actual or perceived conflict of interest to the Director Shared Services.

2.2.2. If used, independent Investment Advisors are to declare that they have no actual or perceived conflicts of interest and receive no inducements in relation to Council's investments.

2.2.3. At times, it may be advantageous to deal with third parties that are remunerated on a transaction rather than retainer basis. Council will use such suppliers to its advantage, and have regard to:

- a) Administrative cost savings;
- b) Ability to access higher (retail) rates where exceeding the direct transaction costs;
- c) Access to ADIs that would not normally be available to Council directly;
- d) Limited access or initial public offerings deals, or other secondary market opportunities that are only available from specific sources;
- e) The costs of other distribution channels that do not involve transaction remuneration.

2.2.4. If Council uses an independent Advisor or third party supplier/dealer, it will take steps to ensure that:

- a) Suppliers used are appropriately licensed, reputable and capable;
- b) Funds and identification data are sufficiently secured;
- c) Third party arrangements do not materially worsen Council's credit risks by creating exposure to the dealer;
- d) Remuneration arrangements are reasonable and transparent; and
- e) Deposits are always placed direct with the authorised ADI.

### 2.3. Authorised investments

2.3.1. All investments must be denominated in Australian dollars and are limited to those allowed by the Victorian *Local Government Act 2020* (Section 103), relevant regulations and Minister's guidelines. Section 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.

## 2.4. Prohibited Investments:

### 2.4.1. This policy prohibits the following investments:

- a) Derivative based instruments;
- b) Principal only investments or securities that provide potentially nil or negative cash flow;
- c) Stand-alone securities issued that have underlying futures, options, forwards contracts and swaps of any kind;
- d) Floating Rate Notices (FRN);
- e) Mortgage of land;
- f) Managed funds; and
- g) The use of leveraging (borrowing to invest). However nothing in the Policy shall prohibit the short-term investment of loan proceeds where the loan is raised for non-investment purposes and there is a delay prior to the spending occurring.

## 2.5. Risk Management Guidelines

### 2.5.1. Investment decisions will be made taking into consideration the following key criteria:

- a) Preservation of Capital - the requirement for preventing losses in an investment portfolio's total value;
- b) Credit Risk - the risk that a party or guarantor to a transaction will fail to fulfil its obligations. In the context of this document it relates to the risk of loss due to the failure of an institution/entity with which an investment is held to pay the interest and/or repay the principal of an investment;
- c) Diversification - the requirement to place investments in a broad range of products so as not to be over-exposed to a particular sector of the investment market;
- d) Liquidity Risk - the risk an investor runs out of cash, is unable to redeem investments at a fair price within a timely period, and thereby

incurs additional costs (or in the worst case is unable to execute its spending plans);

- e) Market Risk - the risk that fair value or future cash flows will fluctuate due to changes in market prices, or benchmark returns will unexpectedly overtake the investment's return.
- f) Maturity Risk - the risk relating to the length of term to maturity of the investment. The longer the term, the greater the length of exposure and risk to market volatilities.
- g) Rollover risk - the risk that income will not meet expectations or budgeted requirement because interest rates are lower than expected in future.

### 2.6. Investment Advisor

2.6.1. Council may use an independent Investment Advisor.

2.6.2. The Investment Advisor is appointed by the Director Shared Services and must be licenced by the Australian Securities and Investment Commission (ASIC). The Advisor must be independent and confirm in writing that they have no actual or potential conflict of interest in relation to investment products being recommended and is free to choose the most appropriate product within the terms of this Policy. This includes receiving no commissions or other benefits in relation to the investments being recommended or reviewed, unless these commissions or benefits are passed on directly to Council.

### 2.7. Accounting

2.7.1. Council will comply with relevant Accounting Standards in valuing its investments and quantifying its investment returns.

2.7.2. In addition to recording investment income according to Accounting Standards, published reports may show a break-down of its duly calculated investment returns into realised and unrealised capital gains and losses, and interest.

2.7.3. Other relevant issues will be considered in line with relevant Accounting Standards, such as discount or premium, designation as held-to-maturity or on a fair value basis, and impairment.

2.7.4. Documentary evidence must be held for each investment and details thereof maintained in an investment register. The documentary evidence must provide Council legal title to the investment.

2.7.5. For audit purposes, certificates must be obtained from the banks/fund managers/custodian confirming the amounts of investment held on Council's behalf at 30 June each year.

2.8. Safe Custody Arrangements

- 2.8.1. Where necessary, investments may be held in safe custody on Council's behalf, as long as the following criteria are met:
- a) Council must retain beneficial ownership of all investments;
  - b) Adequate documentation is provided, verifying the existence of the investments at inception, in regular statements and for audit; and
  - c) The Custodian conducts regular reconciliation of records with relevant registries and/or clearing systems.

2.9. Credit Quality Limits

- 2.9.1. The portfolio credit guidelines to be adopted will refer to the Standard and Poor's ratings system criteria. Moody's may also be used to assess investment ratings where available.
- 2.9.2. In the event of disagreement between agencies as to the rating ("split ratings") Council shall use the higher in assessing compliance with portfolio Policy limits, but for conservatism shall apply the lower in assessing new purchases.
- 2.9.3. However, the primary control of credit quality is the prudential supervision and government support and explicit guarantees of the ADI sector, not ratings.
- 2.9.4. The maximum holding limit in each rating category at the time of making an investment decision for Council's portfolio shall be:

| Long Term Rating Range<br>(or Moody's equivalent) | Maximum holding |
|---|-----------------|
| AAA category                                      | 100%            |
| AA category or Major Banks*                       | 100%            |
| A category  | 60%             |
| BBB+ to BBB category                              | 35%             |
| BBB- and below (including unrated ADI)            | 0%              |

\*For the purposes of this Policy, Major Banks are currently defined as the Approved Deposit-Taking Institution (ADI) deposit or senior guaranteed principal and interest ADI securities issued by the major Australian Banking Groups:

- Australia and New Zealand Banking Group Limited
- Commonwealth Bank of Australia
- National Australia Bank Limited
- Westpac Banking Corporation

and include ADI subsidiaries of the above four banks (such as Bank of Western Australia Ltd) whether or not explicitly guaranteed, and brands (such as St George). Council may ratify an alternative definition from time to time.

2.10. Individual Financial Institution Limits

- 2.10.1. Exposure to individual financial institutions will be restricted by their rating so that single entity exposure is limited as detailed in the table below. It excludes any government guaranteed investments.

| <b>Individual Institution (ADI) Limits</b>            |                           |
|---|---------------------------|
| <b>Long term rating range (or Moody's equivalent)</b> | <b>Maximum allocation</b> |
| AAA category  | 40%                       |
| AA category or Major Banks                            | 40%                       |
| A category  | 20%                       |
| BBB+ to BBB category                                  | 15%                       |
| BBB- category   | 0%                        |
| Unrated category                                      | 0%                        |

2.11. Term to Maturity Limits

- 2.11.1. Council's investment portfolio shall be structured around the time horizon of investment to ensure that liquidity and income requirements are met.
- 2.11.2. Once the primary aim of liquidity is met, Council will ordinarily diversify its maturity profile as this will ordinarily be a low-risk source of additional return as well as reducing the volatility of Council's income. However, Council always retains the flexibility to invest as short as required by internal requirements or the economic outlook.
- 2.11.3. The factors and/or information used by Council to determine minimum allocations to the shorter durations include:
- Council's liquidity requirements to cover both regular payments as well as sufficient buffer to cover reasonable foreseeable contingencies;
  - Medium term financial plans and major capital projects forecasts;
  - Known grants, asset sales or similar one-off inflows; and
  - Seasonal patterns to Council's investment balances.

| <b>Description</b>      | <b>Maturity date</b> | <b>Minimum allocation</b> | <b>Maximum allocation</b> |
|-------------------------|----------------------|---------------------------|---------------------------|
| Working capital         | 0-3 months           | 20%                       | 100%                      |
| Short term funds        | 3-12 months          | 20%                       | 75%                       |
| Short-medium term funds | 1-2 years            | 0%                        | 50%                       |
| Medium term funds       | 2-5 years            | 0%                        | 25%                       |
| Long term funds         | 5-10 years           | 0%                        | 10%                       |





**2.12. Quotations for Investments**

- 2.12.1. Not less than three (3) quotations shall be obtained from authorised institutions whenever a direct investment is proposed and ideally quotes should be received from a larger range of ADI.
- 2.12.2. When evaluating potential investments Council will consider financial institutions (ADIs) that are committed to sustainable and responsible practices including:
  - the offering of suitable ‘fossil fuel free’ investment options; and/or
  - the offering of suitable ethical investment options; and/or
  - a commitment to adding value to the Manningham community.

The selection, however, must also consider and not be in conflict with the other objectives of the Investment Policy
- 2.12.3. 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 in this policy.

**2.13. Performance Benchmarks**

- 2.13.1. The performance of each investment will be assessed against the benchmarks listed in the table below. It is Council’s expectation that the performance of each investment will be greater than or equal to the applicable benchmark by sufficient margin to justify the investment taking into account its risks, liquidity and other benefits of the investment.
- 2.13.2. It is also expected that Council will take due steps to ensure that any investment, notwithstanding a yield above the benchmark rate (taking into account term), is executed at the best pricing reasonably possible.

| <b>Investment</b>  | <b>Benchmark</b>                     | <b>Time horizon</b> |
|--|--------------------------------------|---------------------|
| 11am account, bank balance                                 | Official RBA cash rate               | < 1 month           |
| Terms deposits/bank bills and other authorised investments | Applicable RBA Bond Index plus 0.25% | 1 month to 10 years |

- 2.13.3. The decision to know when to exit longer term investments is based on a range of criteria specific to the investment - including but not limited to factors such as:
  - Returns expected over the remaining term;
  - Fair Values;
  - Competing investment opportunities;
  - Costs of holding;
  - Liquidity and transaction costs; and
  - Outlook for future investment values.

## 3. SCOPE OF POLICY

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- 3.1. All Council's funds are to be invested in line with this Policy document.

## 4. RESPONSIBILITY

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- 4.1. Delegation of Authority
- 4.1.1. Authority to implement this Policy is delegated by Council to the Chief Executive Officer in accordance with the *Local Government Act, 2020*.
  - 4.1.2. The Chief Executive Officer has in turn delegated the day-to-day management and authority to invest Council's surplus funds to the Director Shared Services and the Chief Financial Officer, who must ensure adequate skill, support and oversight.
  - 4.1.3. The Coordinator Financial Accounting, Financial Accountant and Cash Management and Banking Officer are authorised to act on transfers between Council's 11am account and the general bank account.
  - 4.1.4. Officers' delegated authority to manage Council's investments shall be recorded and they are required to acknowledge they have received a copy of this Policy and understand their obligations in this role.
  - 4.1.5. A quarterly report will be provided to the Chief Executive Officer. The report will detail the investment portfolio in terms of holdings and impact of changes in market value since the previous report. The report will also detail the investment performance against the applicable benchmark, investment income earned versus budget year to date and confirm compliance of Council's investments within legislative and policy limits. Council or the Chief Executive Officer may nominate additional content for reporting.
  - 4.1.6. This Policy will be reviewed every four years or as required in the event of legislative change or as a result of significantly changed economic/market conditions. The Policy may also be changed as a result of other amendments that are to the advantage of Council. Any amendment to this Policy must be by Council resolution.

## 5. DEFINITIONS

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- 5.1. Terms used in this Policy have the following meanings:
- 5.1.1. Act - Local Government Act 2020.
  - 5.1.2. ADI - Authorised Deposit-Taking Institutions (ADIs) are corporations that are authorised under the Banking Act 1959 to take deposits from customers.
  - 5.1.3. Bill of Exchange - a bill of exchange is an unconditional order in writing, addressed by one person to another, signed by the person giving it, requiring the person to whom it is addressed to pay on demand, or at a fixed or

determinable future time, a sum certain in money to or to the order of a specified person, or to bearer.

- 5.1.4. BBSW - the Bank Bill Swap (BBSW) reference rate is the average of mid-rate bank-bill quote from brokers on the BBSW Panel. The BBSW is calculated daily. Floating rate securities are most commonly reset quarterly to the 90-day BBSW.
- 5.1.5. Council Funds - surplus monies that are invested by Council in accordance with Section 103 of the Act.
- 5.1.6. FRN - a Floating Rate Note (FRN) is a medium to long term fixed interest investment where the coupon is a fixed margin (“coupon margin”) over a benchmark, also described as a “floating rate”. The benchmark is usually the BBSW and is reset at regular intervals - most commonly quarterly.
- 5.1.7. NCD - is a short term investment in an underlying security being a negotiable certificate of deposit (NCD) where the term of the security is usually for a period of 185 days or less (sometimes up to two years). NCDs are generally discount securities, meaning they are issued and on-sold to investors at a discount to their face value. Sometimes also referred to as “transferrable certificate of deposit” (TCD)
- 5.1.8. RBA Bond Index – f16 Indicative Mid Rates of Australian Government Securities.

## **6. RELATED LEGISLATION/DOCUMENTS**

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The Policy should be read in conjunction with the following documents/legislation:

- Local Government Act 2020
- Local Government (Planning and Reporting) Regulations 2014
- Banking Act 1959
- Australian Accounting Standards
- Ministerial Guidelines and Circulars
- Long Term Financial Strategy
- Annual Budget

## 7. DOCUMENT HISTORY

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|                                   |                         |
|-----------------------------------|-------------------------|
| <b>Policy Title:</b>              | Investment Policy       |
| <b>Responsible Officer:</b>       | Jon Gorst               |
| <b>Resp. Officer Position:</b>    | Chief Financial Officer |
| <b>Next Review Date:</b>          | August 2024             |
| <b>To be included on website?</b> | Yes, and Intranet       |

| Last Updated | Meeting type | Meeting Date | Item N° |
|--------------|--------------|--------------|---------|
| 2010         | Council      | 28/9/2010    | 12.1    |
| 2012         | Council      | 31/1/2012    | 12.1    |
| 2014         | Council      | 25/2/2014    | 12.2    |
| 2016         | Council      | 26/7/2016    | 13.1    |
| 2020         | Council      | 25/8/2020    | 12.1    |