

Council Policy

Council policy title:	Investment Policy
Council policy ref no:	C/POL/COR/051
Council policy owner:	Director Corporate Services
Adopted by:	Bayside City Council
Date adopted:	March 2022
Scheduled review:	March 2025

(Council Policy is a public statement formally resolved by Council, which clearly states Council's requirements in relation to a particular matter or issue. For Council policy approval process see Section 10 and Appendix 1 of the Policy Handbook.)

1. Policy intent

The intent of this policy is to provide the framework for the investment of funds in accordance with the requirements of the Local Government Act 2020.

2. Purpose/Objective

To invest Council surplus funds having regard to the risk and the rate of return available for that particular investment type.

While exercising the power to invest, priority is to be given to preservation of capital, liquidity, and return on investment in accordance with these guiding principles: -

- **Preservation of capital** is the principal objective of the investment portfolio. Funds are to be invested in a manner that seeks to ensure security of the investment portfolio. This includes managing credit and interest rate risk within approved thresholds and parameters. The Risk Management Guidelines provides a broader list of other factors which Council needs to consider when investing its surplus funds.
- The investment portfolio will ensure there is **sufficient liquidity to meet all reasonably anticipated cash flow requirements**, as and when they fall due, without incurring costs due to the unanticipated early maturity of investments.
- Investments are expected to **achieve a prudent rate of return** that takes into account Council's risk tolerance. Return on investment will be monitored and compared to the benchmark set and the prevailing market rate for the investment category.

As custodians of public money this policy aims to balance the security of investments, rate of return, and commitment to supporting environmentally and socially responsible investments.

3. Scope

The policy applies to all funds invested in financial institutions by Council officers on behalf of Council.

4. Legislative requirements

Council will comply with the following in relation to investments

- Investments are limited to those identified in Sec 103 of the Local Government Act 2020 and those authorised investments as advised by the Minister for Local Government. Refer Appendix 1
- Local Government (Planning and Reporting) Regulations 2014.

5. Accounting Standards

Council will comply with all applicable Australian Accounting Standards (AASB) including

- AASB7 Financial Instruments Disclosure
- AASB13 Fair Value Measurement
- AASB132 Financial Instruments Presentation
- AASB136 Impairment of Assets
- AASB139 Financial Instruments Recognition and Measurement

6. Monitoring, evaluation & review

The Council's adopted budget includes the budgeted cash-flow, investments and expected return on investment for the year. Council's monthly finance report will include an Investment Report which will measure compliance with the investment portfolio matrix and performance of the portfolio including

- Investments held.
- Investment ratings.
- Investment maturity dates.
- Investment performance against relevant benchmarks and budget.

Documentary evidence will be held for each investment, the details maintained in an investment register, and a reconciliation of the investment register to the general ledger will be completed and reviewed monthly.

Compliance will also be monitored through periodic reviews of control processes by the Manager Finance, in addition to internal and external audits.

This policy shall be reviewed every four years by the Manager Finance or as a result of changes to Sec 103 of the Local Government Act 2020 and or Investments as authorised by the Minister for Local Government.

7. Liquidity Risk

Liquidity risk includes the risk that, as a result of operational liquidity requirements sufficient funds will not be available to settle a transaction when required, we will be forced to sell a financial asset at below value or may be unable to settle or recover a financial asset.

Liquidity Risk will be managed by

- Maintaining on a monthly basis the annual cash flow forecast in order to assess the short, medium and long-term liquidity requirements of Council
- Having a liquidity target for a minimum and average level of cash and cash equivalents to be maintained
- Having readily accessible standby facilities in place such as an overdraft facility
- Having a liquidity portfolio structure that requires surplus funds to be invested within various bands of liquid investments
- Monitoring of budget to actual performance on a monthly basis
- Set limits on direct borrowings and loan guarantees relating to the percentage of loans to rate revenue

8. Risk Management Guidelines

Investments obtained are to be considered in light of the following key criteria:

- Preservation of Capital – the requirement for preventing losses in an investment portfolio's total value.
- 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.
- 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.
- Liquidity Risk (of Counterparty) – the risk a financial institution runs out of cash, is unable to redeem investments at a fair price within a timely period, and thereby Council incurs additional costs (or in the worst case is unable to execute its spending plans).
- 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.
- 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; and
- Rollover Risk – the risk that income will not meet expectations or budgeted requirement because interest rates are lower than expected in future.

9. Policy Statement

Subject to the restrictions contained in S.103 of the Act, and any other manner approved by the Minister (Refer Appendix 1) Council will invest in any of the investments as described in section 9.1 below and the following tables below.

Table 1 Credit Quality Limits

The portfolio credit guidelines to be adopted will reference the Standard & Poor's (S&P) ratings system criteria and format. Where an institution is not formally rated by S&P, but rated by Moody's and Fitch Ratings, the equivalent applicable credit rating will be utilised.

The primary control of credit quality is the prudential supervision and government support and explicit guarantees of the Approved Deposit Institution (ADI) sector, and not credit ratings.

The maximum holding limit in each rating category for Council's portfolio shall be:

Long-Term Ratings Range	Maximum Holding
AAA Category	100%
AA Category or Major Bank* (AA+ to AA-)	100%
A Category (A+ to A-)	60%
BBB Category (BBB+ to BBB-)	40%
Unrated Category	0%

*For the purpose of this Policy, "Major Banks" are currently defined as the ADI deposits or senior guaranteed principal and interest ADI securities issued by the major Australian banking groups:

- Australia and New Zealand Banking Group Limited (ANZ)
- Commonwealth Bank of Australia (CBA)
- National Australia Bank Limited (NAB)
- Westpac Banking Corporation (WBC)

including ADI subsidiaries whether or not explicitly guaranteed, and brands (such Bank of Melbourne).

Standard & Poor's ratings attributed to each individual institution will be used to determine maximum holdings. In the event of disagreement between agencies as to the rating band ("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.

Table 2 Counterparty Limits

Exposure to individual counterparties/financial institutions will be restricted by their rating so that single entity exposure is limited, as detailed in the table below.

These limits do not apply to Federal/State or Managed Funds. It should be noted that the Federal government does not guarantee the capital value or unit price of any Managed Fund investments.

Long-Term Ratings Range	Maximum Holding
AAA Category	60%
AA Category or Major Bank* (AA+ to AA-)	60%
A Category (A+ to A-)	45%
BBB Category (BBB+ to BBB-)	30%
Unrated Category	0%

Maximum % with any one Managed Fund 40% Refer 9.3

Table 3 Investment Horizon Limits

Council’s investment portfolio shall be structured around the time horizon of investment to ensure that liquidity and income requirements are met.

“Horizon” represents the intended minimum term of the investment; it is open for the Investment Strategy to define a target date for sale of a liquid investment such as a floating rate note (FRN) or fixed bond.

Once the primary aim of liquidity is met, Council will ordinarily diversify its maturity profile as this will ordinarily be a low-risk method of obtaining additional return as well as reducing the risks to Council’s income. However, Council always retains the flexibility to invest as short as required by cashflow requirements or the economic outlook.

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 reasonably foreseeable contingencies.

- Medium term financial plans and major capital expenditure forecasts.
- Known grants, asset sales or similar one-off inflows.
- Seasonal patterns to Council's surplus funds.

Investment Horizon Description	Investment Horizon	Minimum Allocation	Maximum Allocation
Working capital funds	0-3 months	20%	100%
Short term funds	3-12 months	0%	100%
Short-Medium term funds	1-2 years	0%	70%
Medium term funds	2-5 years	0%	30%
Long term funds	5-10 years	0%	0%

Within these broad ranges, Council relies upon assumptions of expected investment returns and market conditions that have been examined with its investment advisor.

Maximum term to maturity excludes Managed Funds Refer 9.3

9.1 Approved Investments

Investment	Description	Features	Benchmark	Horizon
At Call Deposits	Cash funds invested on overnight deposits	Ready access to funds. No fees.	Reserve Bank Cash rate	Short Term
Term Deposits	Investment held by an authorised deposit-taking institution (ADI) for an agreed rate of interest over a fixed amount of time	Highly liquid product with a fixed rate of return	Bloomberg Ausbond Bank Bill Index	Short Term/Long Term (up to 5 years)
Commercial Bill	Highly negotiable product sold at a discount to their face value. The bank undertakes to pay the investor the face value upon maturity.	Highly liquid product which can be redeemed at any time by selling back to the bank	Bloomberg Ausbond Bank Bill Index	Short Term (up to 6 months)
Senior Floating Rate Notes (FRNs)	Senior ranked FRNs issued by ADIs are available for terms ordinarily of 1-5 years with regular coupons (interest) usually paid quarterly	Interest rate is set at the beginning of the period and is paid in arrears. It is normally set at a fixed margin over the 90-day Bank Bill Swap Rate (BBWS)	90 Day BBSW + appropriate margin (agreed at time of investment)	Long Term
Government and semi-Government Bonds	Long dated maturities with a sovereign debt rating.	Very high credit rating with a relatively low return in terms of yield	Bloomberg Ausbond Composite Bond Index	Long Term
Managed Funds with a minimum AAF rating	Enhanced cash funds independently managed by Fund Managers	Increase in duration and active investment in a broader range of high-quality, short-term investments.	Bloomberg Ausbond Bank Bill Index + 0.20% (20 basis points)	Short Term/Long Term

9.2 Selection of Investments

- a) Adequate funds should be retained to meet daily cash flow requirements.
- b) A minimum of three (3) quotes shall be obtained from authorised deposits-taking institutions before investing, rollover or re-investing funds.
- c) The best possible investment rate must be used subject to limits outlined this policy
- d) If the credit rating of a financial institution in which Council has funds invested is downgraded, such that they no longer fall within the credit rating limits they must be divested as soon as practicable.
- e) Where the credit rating limit is exceeded as the result of an investment being redeemed, the exposure will be adjusted at the next available opportunity when funds are to be invested.
- f) All new investments must be authorised by the Manager Finance or Director Corporate Services
- g) Any two of the following authorised signatories to provide investment instructions
 - Director Corporate Services
 - Manager Finance
 - Coordinator Accounting Services
 - Financial Accountant
- h) Upon redemption, all investments must be transferred to Council's operating bank account unless rolled over. Investments are not to be transferred from one financial institution to another.

9.3 Council Investment with Fund Managers

Fund managers will be selected using external independent advice and the following criteria:

- a) Standard & Poors AAm or AAf or equivalent in other rating categories
- b) Certification of having read and understood relevant legislation and policies including
 - The Local Government Act 2020 S103 pertaining to Local Government Investments;
 - Any Ministerial Releases in relation to investments for Local Government;
 - Bayside City Council Investment Policy
- c) No one fund manager shall hold more than 40% of Council's total annual average funds

9.4 Prohibited Investments

This investment policy prohibits any investment carried out for speculative purposes including:

- Derivative based instruments (excluding floating rate notes).
- Principal only investments or securities that provide potentially nil or negative cash flow
- Stand-alone securities issued that have underlying futures, options, forward contracts or swaps of any kind
- Subordinate debt instruments eg Collateralised Debt Obligations
- Highly structured products
- The use of leveraging (borrowing to invest) for an investment

9.5 Socially Responsible Investments

9.5.1 Fossil Fuel Divestment

Fossil fuel divestment is the conscious avoidance and removal of investments in projects that further the use of fossil fuels, such as coal or gas.

Council does not directly invest in fossil fuel projects.

The majority of Council's investments reside in financial institutions, many of which fund fossil fuel projects. Therefore, Council has adopted a positive screening approach for Council's investment with financial institutions by actively investing with fossil fuel free financial institutions within the parameters of Council's investment policy.

Where financial institutions are offering equivalent investment returns with a similar credit rating, and the investment fits within the provisions of this Investment Policy, preference will be given to placing funds with institutions identified as avoiding the funding of the fossil fuel industry.

Without compromising the risk and return profile of the investment portfolio, Council gives preference to Financial Institutions which can transparently demonstrate:

- the rate of return on investment is greater than or equal to the rates of other Authorised Deposit-Taking Institutions which comply with Council's investment policy and are available at the time.
- the avoidance of funding fossil fuel or nuclear industries in the investment product
- that the financial institution and product are otherwise compliant with Council's policy.

9.5.2 Treaty on the Prohibition of Nuclear Weapons

Council does not invest directly in institutions that produce nuclear weapons.

9.6 Investment Advisor

An investment advisor if appointed must be licensed by the Australian Securities and Investment Commission. The advisor must be an independent person who has no actual or potential conflict of interest in relation to investment products being recommended or reviewed, except as fully rebated to Council.

9 Related Documents

Policies	Risk Management Policy Financial sub-Delegation Fraud Control Policy Loan Guarantee Policy
Strategies	Financial Plan Council Plan
Procedures	
Guidelines	

Please note: This policy is current as at the date of approval. Refer to Council's website (www.bayside.vic.gov.au) or staff intranet to ensure this is the latest version.

Appendix 1

Local Government Act 2020 sec103 - Investments

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 authorised deposit-taking institution; 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.

The Minister for Local Government authorised the following investments in July 2007:

- Certificates of deposit and bills of exchange
- Investments in the Treasury Corporation of Victoria
- Investments in managed investment schemes with a rating of AAm or AAf from Standard and Poors Australian Ratings
- Fixed interest securities of an Australian Authorised Deposit Taking Institution and Shares listed on the Australian Stock Exchange, subject to certain conditions. *These conditions include compliance with the Prudential Statement issued by the Minister for Local Government and approval of such investments under an appropriate plan by the Department of Treasury & Finance*
- Fixed interest securities of the Australian States and Territories



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Circular No. 14/2007

The Chief Executive Officer
All Councils and Regional Library Corporations
(As addressed)

Dear Sir/Madam

AUTHORISED INVESTMENTS – SECTION 143, LOCAL GOVERNMENT ACT 1989

I wish to advise that on 19 July 2007, the Minister for Local Government, the Hon. Richard Wynne MP, following consultation with the Treasurer, the Hon. John Brumby MP, approved a new form of investment as an authorised investment for the purposes of section 143(f) of the *Local Government Act 1989* (the Act). This approval was published in the Government Gazette of 26 July 2007, G30 (copy of approval attached).

The Minister has now approved the direct investment in fixed interest securities of the other Australian States and Territories subject to these securities being issued and guaranteed by a State or Territory Government and which have a credit rating equivalent to a Standard & Poor rating of AA or better as an authorised investment for the purposes of section 143(f) of the Act.

You will note that the power to invest in fixed interest securities of the other Australian State and Territories is not new. In 1998, these investments were similarly approved along with investments in shares in corporations listed on the Australian Stock Exchange (the ASX). However, under the 1998 approval, investments could only be made at arms length through a managed fund and only after a council had:

- lodged a report on financial and investment objectives and investment strategies under Section 6 of the Prudential Statement on Investment Powers of Councils dated February 1998; and
- received confirmation from the Department of Treasury and Finance that the council complies with the requirements of the Prudential Statement.

The approval of 19 July 2007 will enable councils to invest directly in fixed interest securities of the other Australian States and Territories. It should be noted however that investments in shares of a corporation listed on the ASX continue to be restricted consistent with the 1998 approval.

The new approval has provided the opportunity to remove previously authorised investments, which had, with the passage of time, become redundant.



The Minister's approval of 19 July 2007 therefore revokes all previously authorised general investments and restates those that continue to apply, including the new investments.

The Minister's approval of 19 July 2007 provides a single list of all investments authorised generally to apply to all councils and regional library corporations under section 143(f) of the Act.

Please feel free to contact Paul Rozario, Analyst Governance & Legislation on 9208 3611 or by e-mail at paul.rozario@dvc.vic.gov.au should you have any queries in relation to this matter.

Yours sincerely

A handwritten signature in black ink that reads "Prue Digby". The signature is written in a cursive, flowing style.

Prue Digby
Executive Director
Local Government, Employment and Adult Education

25 July 2007

Encl.

Local Government Act 1989

APPROVAL OF AUTHORISED MANNERS OF INVESTMENTS FOR THE PURPOSES OF SECTION 143(F) OF THE LOCAL GOVERNMENT ACT 1989

I, Richard Wynne MP, Minister for Local Government, pursuant to section 143(f) of the *Local Government Act 1989* (the Act), hereby revoke all investments previously authorised generally to apply to all councils and regional library corporations under this provision.

Pursuant to section 143(f) of the Act, I authorise as approved manners of investment to apply generally to all councils and regional library corporations:

1. *Certificates of Deposit and Bills of Exchange*

- (a) a certificate of deposit, whether negotiable, convertible or otherwise, issued by an authorised deposit taking institution as defined by section 3 of the *Trustee Act 1958*;
- (b) a bill of exchange which at the time of acquisition has a maturity date of not more than 200 days and which if purchased for value confers on the holder in due course a right of recourse against an authorised deposit taking institution, as defined by section 3 of the *Trustee Act 1958*, as the acceptor or endorser of the bill for an amount equal to the face value of the bill.

2. *Investments in the Treasury Corporation of Victoria.*

3. *Investment in managed investment schemes*

Investments in managed investment schemes which:

- have a rating of AAm or a rating of AAf from Standard and Poors Australian Ratings;
- are registered under section 601EB of the *Corporations Law 2001* (Commonwealth); and
- are liquid within the meaning of section 601KA(4) of the *Corporations Law 2001* (Commonwealth) and have a constitution that provides for members to withdraw from the scheme.

4. *Fixed interest securities of an Australian Authorised Deposit Taking Institution and Shares listed on the Australian Stock Exchange*

Investments in:

1. fixed interest securities of or guaranteed by an Australian authorised deposit taking institution; and
2. shares of a corporation listed on the Australian Stock Exchange.

Investments in fixed interest securities of an Australian authorised deposit taking institution and shares listed on the Australian Stock Exchange are subject to the following terms and conditions

Terms and Conditions

These investment powers may only be used by councils which have:

- [a] lodged a report on financial and investment objectives and investment strategies under Section 6 of the Prudential Statement on Investment Powers of Councils dated February 1998; and
- [b] received confirmation from the Department of Treasury and Finance that the council complies with the requirements of the Prudential Statement.

Investments must not be made directly but only through trust vehicles managed by the Victorian Funds Management Corporation or a private sector fund manager with specialist expertise in investment.

5. *Fixed interest securities of the Australian States and Territories*

Investments in the fixed interest securities of the other Australian States and Territories subject to these securities being:

- issued and guaranteed by a State or Territory Government; and
- which have a credit rating equivalent to a Standard & Poor rating of AA or better.

Dated 19 July 2007

RICHARD WYNNE MP
Minister for Local Government