

Investment Policy

A4061542

1. Policy statement

This Investment Policy (Policy) is to provide guidance on the effective and responsible utilisation of Council's surplus cash funds within the government legislative framework and will conform to applicable Federal and Victorian Government regulations.

Particular emphasis is directed towards investment decisions that limit unnecessary exposure to risk and optimise return on investment whilst ensuring sufficient liquidity for Council's on-going operating commitments.

2. Reason for Policy

The purpose of Council's Investment Policy is to ensure that:

- All funds are invested in accordance with legislative and Council requirements
- Effective internal controls are in place to minimise investment risk and unauthorised appropriation of Council funds
- All investment transactions are appropriately authorised and documented
- Investment decisions are based on the security of funds by limiting unnecessary exposure to risk
- The financial yield is enhanced through prudent investment of funds whilst ensuring sufficient liquidity for Council's day to day operational commitments
- Legally restricted funds are appropriately invested so as to earn a reasonable income towards their purposes (whilst limiting unnecessary exposure to risk)

3. Scope

This Policy applies to Council officers who have the delegated authority to invest Frankston City Council surplus funds.

4. Authorisation

This Policy is managed by the **Financial and Corporate Planning Department**, and is approved by Frankston City's Mayor and Council's Chief Executive Officer (CEO):



Mayor, Frankston City



CEO, Frankston City Council

in accordance with Frankston City Council resolution at its Ordinary Council meeting of 16 December 2019

5. Revision date

This Policy will be reviewed and presented to Council every four years from date of adoption or earlier as deemed necessary by Council.

6. Principles

6.1 LEGISLATIVE REQUIREMENTS

All investments shall comply with the *Local Government Act 1989* (the 'Act'), relevant regulations and guidelines or directions issued by the Victorian Local Government Minister or Local Government Victoria.

Section 136 of the Act specifies the Principles of sound financial management' for local government:

- (1) A Council must implement the principles of sound financial management
- (2) The principles of sound financial management are that a Council must:
 - a. Manage financial risks faced by the Council prudently, having regard to economic circumstances
 - b. Pursue spending and rating policies that are consistent with a reasonable degree of stability in the level of the rates burden
 - c. Ensure that decisions are made and actions are taken having regard to their financial effects on future generations
 - d. Ensure full, accurate and timely disclosure of financial information relating to the Council

Section 143 of the Act states:

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 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 after consultation with the Treasurer either generally or specifically, to be an authorised manner of investment for the purposes of this section

6.2 COUNCIL SCOPE

Where practical, funds in excess of those required for the day to day operations of the Frankston City Council should be invested in accordance with Section 143 of the Act as set out above.

All Authorised Deposit taking Institutions are regulated by The Australian Prudential Regulation Authority (APRA). APRA is the prudential regulator of the Australian financial services industry. It

oversees banks, credit unions, building societies, general insurance and reinsurance companies, life insurance, friendly societies, and most members of the superannuation industry. Their mission is to establish and enforce prudential standards and practices designed to ensure that, under all reasonable circumstances, financial promises made by institutions that APRA supervises are met within a stable, efficient and competitive system. Reference: www.apra.gov.au.

6.3 OBJECTIVES

The primary objectives, in priority order, of Frankston City Council investment activities shall be:

- a. **Safety:** Preservation of Capital and Protection of Principal - Safety of principal is the foremost objective of the investment program. Investments of Frankston City Council shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio
- b. **Liquidity:** Frankston City Council's investment portfolio will remain sufficiently liquid to enable the entity to meet all operating requirements that might be reasonably anticipated
- c. **Diversification:** The goals for the selection of a portfolio of specific investments are to establish levels of credit quality, diversification by issuers and diversification by security type
- d. **Return on Investment:** The expected return from investments is between 0.5% and 1% above the Bloomberg Ausbond Bank Bill rate
- e. **Environmentally Responsible Investments (ERI):** Council's preference is to enter into environmentally responsible investments where:
 - i. the investment is compliant with legislation and this Policy's objectives
 - ii. the rate of return is favourable relative to comparable investments on offer to Council at the time of investment (must be less than 10 basis points)Environmentally productive activities are considered to be:
 - i. resource efficient – especially water and energy
 - ii. renewable energy
 - iii. production of environmentally friendly products, such as those that avoid and reduce waste, for example, through the use of recycled content)
- f. **Community Benefit:** Investments will be considered where there is a demonstrated community benefit to the Frankston municipality where:
 - i. the investment is compliant with legislation and this Policy's objectives
 - ii. the rate of return is favourable relative to comparable investments on offer to Council at the time of investment (must be less than 10 basis points)

6.4 DELEGATION OF AUTHORITY

Delegated authority to invest surplus funds on Council's behalf is provided for in the S7 Instrument of Sub Delegation – CEO to members of staff.

Council officers are to refer to the instrument for any conditions and limitations.

6.5 STANDARD OF PRUDENCE

The standard of prudence to be used by investment officials shall be applied in the following context when managing the overall portfolio.

6.5.1 The Prudent Person Rule

Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investments, considering the probable safety of their capital as well as the probable income to be derived.

6.5.2 Prudence

The Coordinator Financial Accounting acting in accordance with written procedures and the Policy and exercising due diligence shall not be personally responsible for an individual security's credit risk or market price changes, provided deviations from expectations are reported to the Manager Financial & Corporate Planning immediately, and appropriate action is taken.

6.6 SAFE CUSTODY ARRANGEMENTS

Where necessary, investments may be held in safe custody on Council's behalf, as long as the following criteria are met:

- Council must retain beneficial ownership of all investments
- Adequate documentation is provided, verifying the existence of the investments
- The Custodian conducts regular reconciliation of records with relevant registries and/or clearing systems
- The Institution or Custodian recording and holding the assets will be:
 - Austraclear; or
 - An institution with an investment grade Standard and Poor's, Fitch or Moody's rating

An institution with adequate insurance, including professional indemnity insurance and other insurances considered prudent and appropriate to cover its liabilities under any agreement

6.7 ACCOUNTING METHOD

6.7.1 Accounting Standards

Frankston City Council will comply with the *Australian Accounting Standards*, *Australian Accounting Standards Board (AASB)* pronouncements, the provisions of the *Local Government Act 1989*.

6.7.2 Investment Return

Investment returns are calculated as total return, including interest earned, premiums and discounts.

6.7.3 Investment Costs

Investments will be carried at par. Investments shall not be sold for less than their value without written approval from the Chief Executive Officer.

6.8 INTERNAL CONTROLS

To minimise the potential for investment risk and unauthorised appropriation of Council funds, the following internal controls will apply:

- All placement and redemption of investments must be authorised by any two of the Director Corporate Development, Manager Financial & Corporate Planning, Coordinator Financial Accounting or a person acting in any of these roles
- The Investment authorisation process must be carried out in accordance with any other relevant policies and procedures.
- All documentation relating to investments must be obtained and stored in an electronic form within Council's Records Management System.
- The Coordinator Financial Accounting will maintain a system of internal controls, which shall be reviewed and tested by the internal auditor at least every two years or upon any extraordinary event, i.e. turnover of key personnel, the discovery of any inappropriate activity.

A schedule of investments will be maintained on a daily basis:

- a. **Written Procedures:** Establishment of written procedures for the operation of the investment program have been drawn up by the Financial Accountant and approved by the Manager Financial & Corporate Planning
- b. **Content:** Procedures include reference to securities safe custody, wire transfer agreements (EFT), banking service contracts and collateral/depository agreements

6.9 REPORTING REQUIREMENTS

6.9.1 Reports to Audit and Risk Committee

The Manager Financial & Corporate Planning will provide to the Audit and Risk Committee a quarterly investment and investment earnings report incorporated in the Quarterly Financial Performance Report. This report will include but not necessarily be limited to Portfolio activity, instruments held, market valuation, interest earnings compared with budget and inflation as well as any narrative necessary for adequate clarification.

6.9.2 Management Reports

The Coordinator Financial Accounting will maintain up-to-date reports of portfolio activity and can be accessed daily using an investment management tool. A minimum monthly report is generated for management purposes and as a permanent record of investment activity. A formal review will be conducted by the Internal Auditor to ensure compliance with policy and regulations.

6.10 DIVERSIFICATION AND SUITABLE INVESTMENTS

Diversification will be sought within the following guidelines with the purpose to reduce overall portfolio risk while attaining market average rates of return. The Council will diversify its investments by security type and institutions. In selecting authorised investments consideration should be given to credit rating on counterparty limits.

6.10.1 Authorised Investments

The Council has a conservative Investment Policy by investing funds in accordance with Section 143 of the *Local Government Act 1989*. However, Council officers must also consider the prevailing international and national economic conditions when determining the most suitable financial institution for funds investment. Council officers should seek advice from suitable qualified licenced investment advisors if they are in doubt as to the suitability of an investment strategy or product.

The following investment types are Authorised Investments for the purposes of this policy and are authorised investments as per the Act.

- Local / State / Commonwealth Government Bonds, Debentures or Securities
- Deposits at call held with an eligible Authorised Deposit-Taking Institution (ADI)
- Term deposits issued by an eligible ADI
- Negotiable certificates of deposit issued by an eligible ADI
- Debt securities issued by an eligible ADI

This Policy prohibits any investment carried out for speculative purposes, including the following:

- Derivative based investments
- Principal only investments or securities that provide nil or negative cash flow
- Stand-alone securities issued that have underlying futures, options, forward contracts and swaps of any kind
- Any securities issued in non-Australian currency including crypto currency
- 'Enhanced cash Funds' or similar products that fall within the definition of a Collateralised Debt of Obligation (CDO)

There are two types of Council investments that are to be invested in accordance with the Investment guidelines stated above, these being:

- At Call Investment (Council's account for day to day operations and transactions).
- General Investment (the investment of excess funds from day to day operations in line with this Policy).

6.10.2 Diversification by Financial Institution

Council officers should ensure that there is proper diversification and minimisation of risk by ensuring that the below credit quality and counterparty limits are adhered to.

The Director Corporate Development or the Manager Financial & Corporate Planning are authorised to allow variations of the below tables from time to time, on a short-term basis, to enable maximisation of return on investments with the minimisation of risk.

Credit Quality Limits

Overall Portfolio Rating Limits	
Long Term Rating Category	Maximum Limit
AAA Category	100%
AA Category	100%
A Category	60%
BBB Category	30%
Unrated	10%

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 over-page:

Individual Institution or Counterparty Limits	
Long Term Rating Category	Maximum Limit
AAA Category	100%
AA Category	40%
A Category	30%
BBB Category	15%
Unrated	5%

Standard & Poor's (or equivalent Moody's or Fitch) ratings attributed to each individual institution will be used to determine maximum holdings.

In the event of disagreement between two agencies as to the rating band ("split ratings") Council shall use the lower of the ratings. Where more than two rating exist, Council shall discard the lowest rating and then use the lower of the higher two ratings when assessing new purchases

6.10.3 Maximisation for Investment Return

Council officers should aim to maximise where possible, favourable returns that do not jeopardise the security of funds invested. It would be anticipated that returns would exceed the Bloomberg Ausbond Bank Bill Index by at least 0.5% over a financial year.

Interest rate quotes must be obtained from a minimum of three approved financial institutions for every investment. Each financial institution will be given only one opportunity to quote per investment round and it will be assumed that each institution's first rate offer is their best offer. The Investment officers will determine the financial institution(s) for the placement of investment funds in accordance with this Policy.

6.10.4 Investment Maturity

Maturity limitations will depend upon whether the funds being invested are considered short term or long term funds. All funds will be considered short term except those reserved for capital projects and special assessment repayments being held for debt retirement. Investments will be limited to maturities not exceeding 60 months.

Maturity will also be laddered to provide for interest rate fluctuations and to minimise investment interest risk. Careful monitoring of interest rate fluctuation will provide a basis for evaluating risk and return.

Short Term Portfolio

Investment maturities for operating funds shall be scheduled to coincide with projected cash flow needs.

Long Term Portfolio

For the purpose of this Policy, investments with a maturity date past one year are classified as long term. The purpose of such investments is to take advantage of market interest rate movements at different times of the economic cycle.

Investment Horizon Description	Investment Horizon - Maturity Date	Maximum Allocation
Short term funds	Up to 1year	100%
Medium to Long term funds	1-3 years	70%
Long term funds	3-5 years	50%

6.11 INVESTMENT ADVISOR

The Council's investment advisor must be approved by Council and licensed by the Australian Securities and Investment Commission. The investment advisor must be an independent person who has 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 and conditions of the investment policy. Council's investment advisor will be appointed for up to three years, via a competitive process under Council's Procurement Policy framework.

Council's investment advisor is required to provide written confirmation that they do not have any actual or potential conflicts of interest in relation to the investments they are recommending or reviewing, including that they are not receiving any commissions or other benefits from the product providers in relation to the investments being recommended or reviewed.

6.12 PERFORMANCE EVALUATION

Market Yield (Benchmark) is the basis used by the Coordinator Financial Accounting to determine whether market yields are being achieved. The performance of the Council's portfolio shall be expected to be between 0.50% and 1.00% above the Bloomberg Ausbond Bank Bill Index.

7. Roles and responsibilities

Responsibility for this Policy rests with the Chief Executive Officer and Council officers involved in the management of this Policy.

Management, monitoring and reporting of investments rests with the Financial and Corporate Planning Department to ensure that balances are accurately recorded. Internal (and external auditing) will encompass checks on compliance.

8. Policy non-compliance

Failure to comply with this Policy has the potential to expose Council to financial loss, risks non-compliance with the Act and damage of Council's reputation. In accordance with Councils staff code of conduct, which requires all staff to comply with all Council Policies, it is essential that the investment criteria outlined in this Policy be strictly adhered to.

9. Related documents

Local Government Act 1989
Long Term Financial Plan

10. Implementation of the Policy

To be implemented immediately following the Council resolution to adopt this Policy.

11. Definitions

Not applicable