

INVESTMENT POLICY

1. INTRODUCTION

1.1 Objectives

The purpose of this policy is to lay out guidelines and principles that need to be followed by Council officers when placing funds on investment with other institutions. Given the fact that the public nature of the Council's activities will always be subject to close scrutiny the management of its monetary assets always holds the potential for unexpected scandal or controversy and it needs to establish conservative and risk averse guidelines for its investments.

It is therefore critical that a risk management framework be established within which the Council may undertake its investments and the following issues are fundamental to these guidelines.

- **Market risk** – the risks associated with volatility in interest rates, exchange rates, equity prices and commodity prices.
- **Counterparty risk** – the risk of default.
- **Liquidity risk** – the inability to redeem investments for cash quickly.
- **Maturity risk** – longer term assets carry more risks than short term assets.

Council needs to, taking the above into account, take advantage of the interest earning potential of its surplus funds while reducing its exposure to financial risk and ensuring sufficient funds are kept available to meet cash requirements. Council funds also need to be invested in accordance with its legislative and common law responsibilities

1.2 Legislative Powers

All investments shall comply with the Victorian Local Government Act 1989 (Section 143) and relevant regulations and Minister's guidelines.

1.3 Standard of Prudence

All investments are to be made exercising care, diligence and skill that a prudent person of business would exercise in managing the affairs of other persons. When acting under the provisions of this policy Council staff should always maintain a professional balance of risk and return and act as a steward of Council funds.

2. APPROVED INVESTMENTS

Investments may be made subject to the following provisions:

2.1 Currency

All investments are to be denominated in Australian dollars.

2.2 Investment Types (Permitted by S143 of the Local Government Act)

- Bank accepted / endorsed bank bills
- Bank Negotiable Certificate of Deposits
- Bank interest bearing deposits
- Victorian State of Commonwealth Government Bonds
- Other authorised deposit taking institutions
- On deposit with an eligible money market dealer within the meaning of the Corporations Act
- Any other manner approved by the Minister, including investments in managed funds and trusts which have a rating of AAm or AAF from Standards and Poor's Australian ratings.

3. POLICY FOR INVESTMENT OF WORKING CAPITAL

3.1 Liquidity Management Policy

For day to day cash management purposes, the Council must have available to it cash, liquid investments of at least \$5M. Liquid investments comprise:

- Overnight cash deposits with authorised counterparties that must be banks; and
- Bank bills endorsed or accepted by authorised counterparties that must be banks.

3.2 Cash Management Policy

For amounts in excess of \$5M (day to day liquidity) up to \$15M, investments in the following securities may be undertaken:

- Assets approved under Liquidity Management Policy.
- Commercial paper rated A-1 or A-1+ by Standards and Poor's for terms up to 90 days.
- Interest bearing deposits with authorised counterparties.

3.3 Longer Term Investment Policy

For funds in excess of those managed under the Liquidity and Cash Management Policies (i.e \$15M), investments in the following securities may be undertaken:

- Assets approved under Liquidity and Cash Management Policies.
- Bonds issued by the Commonwealth or State Governments with a maturity of up to 5 years.
- Corporate bonds rated BBB+ or higher by Standards & Poor's with a maturity of up to 5 years for no more than \$1M per issuer up to a total investment of \$5M.
- Equity related interest bearing investments with a maturity of 3 years or less where the return of the capital sum is guaranteed by an approved counterparty up to a total investment of \$5M.

Where Council elects to invest in equity related interest bearing investments, it will investigate Ethical investment options in the first instance and proceed with these providing they achieve equivalent returns.

4. POLICY FOR INVESTMENT OF LONG SERVICE LEAVE FUNDS

4.1 Liquid Assets Policy

For liquidity purposes, the Council must have available to it liquid investments of at least 15% of funds under management. Liquid investments comprise:

- Overnight cash deposits with authorized counterparties that must be banks.
- Bank bills endorsed or accepted by authorized counterparties that must be banks.
- Commercial paper rated A-1 or A-1+ by Standard & Poor's for terms up to 90 days.
- Interest bearing deposits with authorized counterparties for terms up to 12 months.

4.2 Longer Term Investment Policy

For funds in excess of those to be managed under the Liquid Assets Policy, investments in the following securities may be undertaken:

- Bonds issued by the Commonwealth or State Governments with a maturity of up to 5 years.
- Corporate bonds rated BBB+ or higher by Standards & Poor's with a maturity of 5 years or less for no more than \$1M per issuer up to a total investment of \$5M.

- Equity investments up to 50% of the value of the long service leave funds.

Where Council elects to invest in equity related interest bearing investments, it will investigate Ethical investment options in the first instance and proceed with these providing they achieve equivalent returns.

5. CASH MANAGEMENT

Given the relatively small sum of investments under management, there is a need for Council to maintain efficiency by investing marketable parcels in various securities. Generally speaking the minimum amounts for investment in liquid assets should be in the order of \$1m to \$3M. This will reduce the administrative costs associated with managing and recording large numbers of transactions.

6. BENCHMARKING

Benchmarking establishes goals for the objective measurement of performance. Appropriate measures for the Council need to take into account the relatively conservative investment policy. The following benchmarks have been set for the different components of the Council's investment portfolio.

6.1 Working Capital Funds

- For any period measured, funds managed under the Liquidity and Cash Management Policies should seek to have a combined return that is 0.25% above the official bank rate that is set by the Reserve Bank of Australia (RBA).
- For any period measured, funds managed under the Longer Term Investment Policy should seek to have a combined return that is 1.00% above the official bank rate that is set by the RBA.

6.2 Long Service Leave Funds

- For any period measured, funds managed under the Liquidity and Cash Management Policies should seek to have a combined return that is 0.25% above the official bank rate that is set by the Reserve Bank of Australia (RBA).
- For any period measured, funds managed under the Longer Term Investment Policy should seek to have a combined return that is 2.00% above the official bank rate that is set by the RBA.

7. MAXIMISING RETURNS

7.1 Money to be invested

- The general bank account balance of Council is to be kept at a sufficient level to meet Council's immediate working capital requirements, with any surplus funds being applied to reducing debt or placed on investment.
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- Funds available for investment will be determined following a review of expected future cash flows. Timing of investment maturities will also be taken into account.

7.2 Money to be transferred using the General Bank Account

- All investments being rolled over with the same financial institution must be derived from funds transferred from Council's general bank account.
- Funds may be transferred electronically or via cheque and will be authorised by two officers who are authorised signatories on the general bank account.
- Interest earned on investments being rolled over must be redeemed to Council's general bank account at the time of maturity
- The Financial Accountant who has delegated authority to place funds on Council's behalf shall not be an authorised signatory on Council's general bank account.
- All funds that are being redeemed, or interest being paid, must be directly credited to Council's general bank account.
- After ensuring all directions detailed in this policy have been met, the quote, which delivers the best value to Council, shall be successful.

8. REPORTING TO COUNCIL

A quarterly report should be submitted to Council that records the nature of the investments under management and their returns. The report should also confirm that investment limits for particular instruments have been adhered to. Any breach of the investment limits should be notified to the CEO within 24 hours of the breach being detected. In addition the following need to be noted:

- A register of investments will be maintained together with an investment file containing all letters of advice from financial institutions.
- Investments will be bought to account and valued at fair value plus transaction costs directly related to the acquisition of the financial asset in accordance with IFRS.

- Interest revenue will be recognised as it is earned.
- Annual averages are to be calculated by using the weighted average of end of month balances.
- Any variations to this policy are to be reported to the Audit Committee within 60 days.

9. REVIEW OF POLICY

This policy has a two year sunset clause that will require it to be reviewed and issued to the Audit Committee for comment every two years. The deadline for the next review is March 2010.