



# Investment Policy

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## I PURPOSE

This policy sets out the principles that need to be followed by Council officers when investing funds with financial institutions. Council needs to take advantage of the interest earning potential of its surplus funds while reducing its exposure to financial risks and ensuring sufficient funds are kept available to meet cash requirements. This policy also sets out reporting requirements on Council's investment portfolio.

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

- Responsible Council officers invest surplus funds with approved financial institutions.
- All funds are invested in accordance with legislative and Council requirements.
- All investment transactions are appropriately authorised and documented.
- Effective internal controls are in place to minimise investment risk and unauthorised appropriation of Council funds.
- Investment decisions take into account the security of Councils funds and risk minimisation while seeking to achieve optimal returns and ensuring Council's liquidity at all times.

## 2 GUIDING PRINCIPLES

The Council's overall objective is to optimise investment returns by investing funds at the most advantageous rate of interest available at the time, for that investment type while achieving a balance between the preservation of capital and the maintenance of liquidity.

### 2.1 Preservation of Capital

Investments are to be placed in a manner to ensure security and safeguarding of the investment portfolio. This includes managing credit and interest rate risk within identified thresholds and parameters.

### 2.2 Maintenance of Liquidity

The investment portfolio will maintain sufficient liquidity to meet all reasonably anticipated operating cash flow requirements.

### 2.3 Investment Return Target

Investments are targeted to achieve a benchmarked rate of return of 50 basis points above the 90 day Bank Bill Swap rate (BBSV). In addition to maximising the returns, factors such as investing with local branches, risk diversification, ethical and ecological aspects should be considered. Therefore at times funds are invested with institutions not offering the highest interest rate of return for the chosen term.

### 2.4 Corporate Social Responsibility (CSR)

Council is committed to social and environmental sustainability. Wherever practical, Council preferences financial institutions that do not directly or indirectly fund activities in the following industries: Offshore detention, Tobacco, Fossil fuel energy generation or distribution, Gambling or entertainment involving animals including racing.

The City of Port Phillip considers climate change a serious threat to current and future generations. The City of Port Phillip has committed to carbon neutrality, and to this end seeks to ensure its financial investments consider the reduction of fossil fuels and our Towards Zero Strategy.

To this end the City of Port Phillip will review and manage its investment portfolio to identify financial institutions which directly or indirectly support of fossil fuel companies and will limit investments in these institutions to the minimum required which will allow compliance with our financial risk management objectives highlighted above.

### 3 DEFINITIONS

At-Call	Refers to investments where the investment can be redeemed within 30 days without penalty. It does not contemplate the trade of investments such as floating rate notes and bonds in the secondary securities market.
BBSW90	Interest rate for Bank Accepted Bills for a term of 90days or Negotiable Certificates of Deposit for a term of 3 months. The monthly average is published on the RBA homepage: <a href="http://www.rba.gov.au/statistics/tables/index.html#interest-rates">http://www.rba.gov.au/statistics/tables/index.html#interest-rates</a>
Bonds	A bond is an instrument of indebtedness of the bond issuer to the holders. Bonds Bondholders have a creditor stake in the company. Therefore bondholders have priority over stockholders but will rank behind secured creditors in the event of bankruptcy. Bonds usually have a defined term, or maturity, after which the bond is redeemed.
Credit ratings	A forward looking opinion about the credit worthiness of the financial institution. The credit rating used under this policy are assigned by Standard& Poor's and Moody's.
Divestment	Divestment is the opposite of an investment, and it is the process of selling/redeeming an investment for either financial, social or ecological goals.
Due Diligence	Due diligence is an investigation of a business including Financial prior to signing a contract.
Financial institution	An authorised deposit-taking institution within the meaning of the Banking Act 1959 (Commonwealth).
Floating Rate Notes	Floating rate notes are medium- to long-term debt obligations with variable interest rates that are adjusted periodically. The interest rate is usually fixed at a specified spread over a specified deposit rate e.g. BBSW90.
Long-term and short-term credit ratings	A credit rating can be either short-term or long-term. A short-term rating is assigned to investments with an original maturity of no more than 365 days. Conversely, a long-term rating is greater than 365 days.
Term deposit	A term deposit is a fixed rate, fixed term investment, Funds are placed for a predetermined amount of time, to earn a predetermined amount of interest.

### 4 SCOPE

This policy is applicable to all Council employees responsible for the investment of Council funds.



## 5 COUNCIL POLICY

### 5.1 Authorised investments

Council mainly invests in term deposits and At-Call accounts. Additionally Council can undertake investments in Floating Rates notes and Federal & State government bonds.

Floating Rate Notes are to be capped at \$5M in total for a maximum term of 5 years and restricted to banks that have a credit agency long term rating of A+/A1 or above.

Investment in Federal & State government bonds are to be capped at \$5M per holding and limited to \$10M in total for a maximum term of 5 years.

All investment types contribute to the total investment portfolio of Council and must fall within the percentage caps of each financial institution as prescribed below.

The minimum investment principal should exceed \$1M, but a single investment parcel should not exceed \$5M. Exemptions apply for investments tied to capital funding / capital grants.

All investments are to be denominated in Australian dollars.

### 5.2 Credit ratings requirements

Each institution that Council places funds with must meet the following criteria:

- investments for more than 365 or more days the **long term rating** must be at least **BBB+ /Baa1** or above
- investments for less than 365 days the **short term rating** must be least **A-2/P-2** or above.

#### 5.2.1 Treatment of subsidiaries

Where Council invests with institutions that have multiple subsidiaries, they need to be treated as a single entity, e.g. Commonwealth Bank/Bankwest, Westpac/St. George/Bank SA/Bank of Melbourne, Bendigo and Adelaide Bank/Rural Bank, and NAB/UBank.

In the absence of any evidence to the contrary unrated wholly owned subsidiaries of a rated financial institution will be taken to have the same credit rating as their parent entity.

Before an investment is place with a financial institution for the first time the ownership needs to be confirmed. The ultimate ownership of each institution Council invests with is to be reviewed annually.

#### 5.2.2 Downgrade

If the credit rating of any counterparty is downgraded such that any investments held with such party no longer comply with this policy, the Council will take steps to divest such investments as soon as practicable, subject to due consideration of risk, penalties and lost interest.



## 5.2.3 Reviewing of credit agency rating

The credit ratings of each institution Council invests with is to be reviewed quarterly.

## 5.3 Threshold requirements

Depending on the investment term the following credit limits apply. Investments that mature within 365 days are classified as short term.

Council reduces risk by limiting the maximum investments for each financial institution. To achieve this, new investments shall not be placed with institutions if the total amount invested with one entity exceeds:

<b>S&amp;P Long Term</b>	<b>S&amp;P Short Term</b>	<b>Individual Counterparty Limit</b>
A+ or above	A-1	40%
A to BBB+	A-2	10%
A to BBB+ *CSR special	A-2 *CSR special	30%

The CSR special is granted to financial Institutions that have proven alignment with Council’s environmental and social sustainability commitment (refer to 2.4). Institutions will be recommended by Chief Financial Officer (CFO) for CSR category and endorsed by General Manager Organisational Performance (GM OP).

The counterparty limits apply to the combined percentage hold in long and short term investments.

### 5.3.1 Threshold for operational cash and At-Call cash holdings

At-Call (I lam) holdings are considered an investment as the deposit is an exposure to the bank. As such, these balances are included in credit concentration limits.

Operational cash accounts are not included in credit concentration limits. Council's operational account balances are actively managed and hold sufficient funds to meet immediate cash flow requirements only.

### 5.3.2 Exceeded investment thresholds

Investment threshold limits may be exceeded when investments are redeemed to fund cash flow and there is limited capacity to rebalance the portfolio. In order to meet these policy guidelines all new investments must be placed in a way so the above thresholds are rebalanced as soon as practical.

If thresholds are exceeded when placing an investment, Council will take steps to rebalance the portfolio within 60 days to ensure that all investments adhere to the above threshold limits, taking into consideration risk, penalties and lost interest.

## 5.4 Reporting and benchmarking

A monthly report should be submitted to the Executive Leadership Team (ELT). The report should inform ELT of the total portfolio and on the percentage invested in CSR/fossil free investments.

The report should also confirm that investment limits for particular instruments have been adhered to or provide details of any breaches and remedial actions taken. The performance of the investments measured against the benchmark and the budgeted interested rate should also be included in the report.

Any breach of the investment limits should be notified to the CFO and the GM OP within 24 hours of the breach being detected and reported in the Monthly Financial Report (MFR) as described above. The Audit & Risk Committee (ARCO) must be advised as soon as practical.

The interest earned on Council's investment portfolio will be reported on a monthly basis. The performance of At-Call Accounts and the performance of other investments under this policy will be bench marked against the following rates:

<b>INVESTMENT</b>	<b>PERFORMANCE BENCHMARK</b>
Cash in At-Call Accounts	11am Cash Rate
Direct Investments	AFMA BBSW Rate: Average Mid - 90 day plus 50 basis points

## 5.5 Review of this policy

This policy has a two year sunset clause that will require it to be reviewed and issued to Audit Committee for comment biennially. Any variations to this policy are to be reported to the Audit Committee as soon as practical but no later than 60 days. The Investment Policy may also be amended as a result of other amendments that are to the advantage of Council and in the spirit of the policy.

## 6 PROCEDURES

### 6.1 Investment decisions

The general fund bank account balance of Council is to be kept at a level that is sufficient to meet Council's immediate cash flow requirements, with any surplus funds being applied to reducing debt if beneficial or placed on investment.

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.



Placing new investments requires written authorisation from the CFO or GM OP.

The responsible officer can call back investments that have matured for cash flow purposes without written authorisation.

## 6.2 Transfer of funds

Funds may be transferred electronically or via direct debit and these transfers will be authorised by two officers who have delegation to approve transfers from the general fund bank account.

Interest earned on investments being rolled over must be redeemed to Council's general fund bank account at the time of maturity. Exemptions apply for interest earned on investments tied to capital funding / capital grants.

All funds that are being redeemed, or interest being paid, must be directly credited to Council's general fund bank account.

## 6.3 Roles and responsibilities

The Chief Financial Officer has responsibility for managing Council's operating cash position and investment portfolio. This includes approving and advising Council on all investment decisions in accordance with this policy.

The Chief Financial Officer is responsible for presenting investment information to the Executive Leadership Team and Council on a periodic basis.

Further roles and responsibilities involved in the investment management process:

POSITION	DESCRIPTION
Financial Accountant	Responsible for the cash flow management, identification and preparation of day- to-day investment decisions
Chief Financial Officer	Responsible for the review and approval of investment decisions in accordance with the Investment Policy
Commbiz approvers	Responsible for the dual approval for the release of funds via the Commonwealth Bank Commbiz application
Senior Compliance Accountant	Responsible for the review of all transactions, matching investments to confirmation documents and ensuring investment thresholds are adhered to.

## 6.4 Ethics and probity

Ethics and conflicts of interest: 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 conflict of interest to the GM OP.



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

## 7 RELEVANT POLICY AND LEGISLATION

All investments are to comply with Local Government Act 1989 (LGA) Section 143 and Australian Accounting Standards.

Investment Types permitted under S143 of the Local Government Act:

- in Government securities of the Commonwealth
- in securities guaranteed by the Government of Victoria
- with an authorised deposit-taking institution
- with any Financial institution guaranteed by the Government of Victoria
- On deposit with an eligible money market dealer within the meaning of the Corporations Act
- 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

## 8 ATTACHMENTS

### 8.1 Credit ratings table

The table below details the credit ratings for short and long-term investments for the three major ratings agencies.

S&P		Moody's		Fitch		
Long-term	Short-term	Long-term	Short-term	Long-term	Short-term	
AAA	A-1+	Aaa	P-1	AAA	F1+	Prime
AA+		Aa1		AA+		High grade
AA		Aa2		AA		
AA-		Aa3		AA-		
A+	A-1	A1	P-2	A+	F1+	Upper medium grade
A		A2		A-		
A-	A-2	A3	P-3	A-	F2	Lower medium grade
BBB+		Baa1		BBB+		
BBB	B	Baa2	Not prime	BBB	B	Non-investment grade Speculative
BBB-		Baa3		BBB-		
BB+		Ba1		BB+		Highly speculative
BB		Ba2		BB		
BB-		Ba3		BB-		
B+		B1		B+		
B		B2		B		
B-		B3		B-		
CCC+	C	Caa1	Not prime	CCC	C	Substantial risks
CCC		Caa2				Extremely speculative
CCC-		Caa3				Default imminent with little prospect for recovery
CC		Ca				
C		C				
D	/	C	Not prime	DDD	/	In default
		/		DD		
		/		D		