



Investment & Treasury Management Policy

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Investment and Treasury Management Policy details

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Purpose

This policy sets out the principles to be followed by Council officers when investing funds with financial institutions. Council must 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 ensures 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.
- Reporting requirements are clearly stated
- Effective internal controls are in place to minimise investment risk and unauthorised appropriation of Council funds.

As custodians of public money this policy aims to balance the security of investments in times of economic downturn with interest earning potential and supporting environmentally and socially responsible investments in times of climate emergency.

Outcomes

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, commitment to Corporate Social Responsibility and the maintenance of liquidity.

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.

Maintenance of Liquidity

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

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 (BBSW). In addition to maximising the returns, factors such as investing with local branches, risk diversification, ethical and climate change impact will be considered. Funds may be invested with institutions not offering the highest interest rate of return for the chosen term.

Corporate Social Responsibility (CSR)

Council is committed to maximising social and environmental outcomes through the selection of financial institutions and investment products. This commitment supports Council's Declaration of a Climate Emergency (18 September 2019), the support for the Treaty on the Prohibition of Nuclear Weapons (16 October 2019) and *Organisational Strategy (2017-21)*

The Climate Emergency and Environmental Sustainability

The Declaration of a Climate Emergency requires Council to take into account climate impacts in all organisational decision making. Council actively and regularly reviews its investment portfolio to identify and minimise investments that directly or indirectly support fossil fuel companies. Each year fossil free investment targets are set in the Council Plan with progress reported through the Annual Report. Investments that are exposed to the fossil fuel industry are only kept at the minimum required to comply with the organisation's financial risk management objectives.

Treaty on the Prohibition of Nuclear Weapons

Council does not invest directly in companies that produce nuclear weapons. Wherever practical, Council preferences financial institutions and investment products that do not directly or indirectly fund any activities in the Arms industry.

Social Responsibility

Council prefers not to invest with financial institutions or in financial products that directly or indirectly funds activities related to offshore detention, tobacco, gambling or entertainment involving animals including racing. Council actively and regularly seeks investment alternatives that also meet organisation's financial risk management objectives.

Risk Statement

As a government body responsible for the collection of public monies and the provision of services the City of Port Phillip must ensure that Council assets are protected on behalf of ratepayers and residents. This policy has been developed to ensure the minimisation of risk associated with the investment of surplus funds and the management of cash.

Definitions

Term	Definition
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: http://www.rba.gov.au/statistics/tables/index.html#interest-rates
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	It is the process of selling/redeeming an investment to achieve financial, social or environmental goals. It is commonly used to describe actions taken by organisations to reduce investments that don't comply with Corporate Social Responsibility commitments
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

Term	Definition
	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.

Responsibilities

Role	Responsibility
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 this policy and managing Council’s operating cash position and investment portfolio. Responsible for presenting investment information to the Executive Leadership Team and Council on a periodic basis.
General Manager Customer and Corporate Services (GMCCS)	Responsible for the review and approval of investment decisions in accordance with this 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.

Scope

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

Policy

Authorised investments

Council can invest in the following:

- Term deposits
- At-Call accounts
- floating rates notes
- Federal & State government bonds.

All investments are to be denominated in Australian dollars.

Investment capping

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.

Minimum and maximum investments

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.

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.

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 confirmed. The ultimate ownership of each institution Council invests with is to be reviewed annually.

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.

Reviewing of credit agency rating

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

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:

S&P Long Term	S&P Short Term	Individual Counterparty Limit
A+ or above	A-1	40%
A to BBB+	A-2	10%
A to BBB+ *CSR special	A-2 *CSR special	40%

The CSR special is granted to financial Institutions that have proven alignment with Council’s environmental and social sustainability commitment. Institutions will be recommended by Chief Financial Officer (CFO) for CSR category and endorsed by General Manager, Customer & Corporate Services.

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

Threshold for operational cash and At-Call cash holdings

At-Call (11am) 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.

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. 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.

Reporting and benchmarking

A monthly update is to be included in the Monthly Financial Report to inform ELT of the total portfolio and on the percentage invested in CSR/fossil free investments. This is also included in the CEO report and Monthly Compliance report.

The report to ELT should 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 CCS 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 monthly. The performance of At-Call Accounts and the performance of other investments under this policy will be bench marked against the following rates:

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

Cash Management

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 considered.

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

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

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.

Divestment of funds

Where the organisational cash requirements indicate a shortfall in available funds, investments can be recalled with the approval of the Chief Financial Officer. Finance officers must adhere to the requirements of the financial institutions where the funds are held.

Ethics and probity

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 General Manager Customer & Corporate Services.

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.

Delegation

The Investment and Treasury Management Policy must be endorsed by the Executive Leadership Team prior to being presented to the Audit and Risk Committee

The Audit and Risk Committee are responsible for reviewing and approving this policy as part of the annual calendar

The Policy is then presented to Council for final approval and adoption prior to implementation by the Finance Department.

Relevant policy, regulations or 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

Attachments

N/A