

## INVESTMENT POLICY

| Policy Endorsement                 | Endorsement required by Council |                          |                                      |
|------------------------------------|---------------------------------|--------------------------|--------------------------------------|
| File Number:                       | A2915998                        | Authority:               | Council                              |
| Directorate:                       | Corporate Services              | Responsible Officer:     | Manager Financial Services           |
| Policy Type:                       | Discretionary                   | Version No:              | 003                                  |
| 1 <sup>st</sup> Adopted by Council | 14 April 2009<br>Minute No. 118 | Last Adopted by Council: | 12 September 2016<br>Minute No. 1515 |
| Review Period:                     | Every 3 Years                   | Next Review:             | September 2019                       |

### 1. Purpose

This policy provides a framework within which the investment of Council funds is to be undertaken by authorised Council officers. It provides a set of guidelines to ensure that investment management of surplus cash funds is made with prudence, consideration of acceptable risk and relevant applicable legislation. It is also to safeguard Council's cash assets, and meet Council's objectives in generating maximum value to ratepayers.

### 2. Background

The policy was developed to provide guidance to staff undertaking investment of Council funds.

### 3. Scope

This policy will apply to all funds invested on behalf of City of Greater Dandenong.

### 4. References

Council will comply with the following in relation to investments:

- **Local Government Act 1989 ("the Act")** – Sections 136 requires Council to "manage its financial risks prudently with due regard to economic circumstances". Section 143 gives guidelines on the specific types of financial instruments that Council could invest in. **(See Appendix)**
- **Australian Accounting Standards** – Council will account for its investments in accordance with these Standards. They also require Council to disclose its exposure to risk, and provide guidelines for valuation of investments, and reporting Council's performance of its investment funds.

## 5. Definitions

- **Principal Accounting Officer:** The Principal Accounting Officer is the Finance Manager of Council.
- **Coordinator Financial Accounting:** Responsibility for the investment program is held by Council and delegated by the Principal Accounting Officer to the Coordinator Financial Accounting. The Coordinator Financial Accounting is responsible for investment decisions and activities and administration of investment funds under the direction of the Finance Manager. The Coordinator Financial Accounting is responsible for having cash available to meet day-to-day demands and to invest all excess cash into appropriate investments as per this policy.
- **Responsible investment** is a process that takes into account environmental, social and governance (ESG) and ethical issues into the investment process of research, analysis, selection and monitoring of investments.

## 6. Council Policy

### Investment Objectives

In investing Council funds, Council must meet the following objectives;

1. Safety of principal – the preservation of capital and protection of principal is the foremost objective of the investment program. Investments made by Council shall be undertaken in accordance with the approved investments and with regard to ensuring the protection of Council funds;
2. Return on Investment – within the boundaries of meeting the safety objective, Council will seek to maximize the return on investment funds;
3. Maintenance of Liquidity – investment decisions will at all times have regard for the future liquidity requirements of Council and maintain flexibility for Council to meet its short-term funding requirements.
4. Where the above three criteria can be met, Council may seek to invest a portion of its investment portfolio in a responsible investment approach and which meets the goals and objectives of Council.

### Approved Investments:

Council will invest its surplus funds within the guidelines and restrictions contained in S.143 of the Act.

Council will invest in any of the investments listed below subject to the limits mentioned in this Policy, and subject to the specific requirements of the Act. Different investment products will have differing levels of use, practicality and desirability at different times of the economic cycle. The decision regarding investment types will be made with regard to the prevailing economic and market conditions, the liquidity requirements of Council and the rates of return applicable at the time.

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| Investment                                     | Description   | Features   | Benchmark   | Horizon* |
|--|---|--|---|----------|
| <b>At call deposit</b>                         | Cash funds invested on overnight deposit.   | Ready access to funds. No fees. Interest rate usually 0.10% below the Reserve Bank cash rate.  | Reserve Bank cash rate less 0.10% (10 basis points)                 | ST       |
| <b>Commercial bill</b>                         | Highly negotiable products 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.   | UBSA Bank Bill Index  | ST       |
| <b>Floating rate notes</b>                     | FRNs are available for terms ordinarily of 1-3 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 margin over the 90 day Bank Bill Swap Rate (BBSW). | 90 day BBSW + appropriate margin (agreed at the time of investment) | LT       |
| <b>Government and Semi-Government bonds</b>    | Long dated maturities with a sovereign debt rating. Considered to be the most resilient investments in regards to adverse market movements. | As a result of the extremely high credit ratings, these bonds have a low return in terms of yield.   | UBSA Composite Bond Index   | LT       |
| <b>Managed funds with a minimum AAf rating</b> | Enhanced cash funds independently managed by fund managers.   | Rate of return is benchmarked against the UBS 90 day Bank Bill index.  | UBS Bank Bill index + 0.20% (20 basis points)                       | ST / LT  |

\*ST refers to investment horizons up to 12 months and LT over 12 months.

When considering investments in managed funds, enquiries will be made regarding the investments made by the fund and independent external advice will be sought.

## Risk Management:

Council will actively manage the different types of risks relating to investments through the following means:

- Avoid speculative instruments
- Match rate of return expectations with levels of risk
- Avoid leveraging of investments – i.e. not used for the purpose of obtaining borrowings.
- Diversification – across asset classes and within asset classes subject to limitations contained in the Act
- Diversification – across counterparties, thereby limiting exposure to individual counterparties/institutions, subject to acceptable credit ratings
- Monitor credit ratings of counterparties regularly
- Set maturity limits for different investments and counterparties to a maximum of 5 years, unless approved by Council.
- Monitor investment performances against **Benchmark** for that category of investments. Investments that consistently perform below benchmark will be invested in alternative instruments
- Segregation of investment functions – No Council officer will both approve and invest funds

## Diversification by Credit Rating and Financial Institution:

Council will control the credit quality on the investment portfolio by applying the following credit framework. This limits the percentage of the portfolio exposed to any particular credit rating category.

| Investment Grade | S&P Short Term Rating* | S&P Long Term Rating* | Investment Maximum % |
|------------------|------------------------|-----------------------|----------------------|
| Superior         | A1+                    | AAA                   | 100%                 |
| Superior         | A1                     | AA+, AA & AA-         | 80%                  |
| Strong           | A2                     | A+, A & A-            | 60%                  |
| Acceptable       | A3                     | BBB+                  | 10%                  |

When placing an investment, no single institution / corporation shall comprise more than 35% of the total investment portfolio, unless the investment is with the Council's transaction banker. Where the exposure limit of an investment category is exceeded as a result of an investment being redeemed, the exposure limits will be adjusted at the next available opportunity when funds are able to be reinvested.

If any of the investments are downgraded such that they no longer fall within this investment policy, they will be divested as soon as practicable.

In addition to the above requirements, any single investment in a AA rated managed fund will represent no more than 40% of the investment portfolio.

## **Selection of Investments**

- At least three (3) quotes are to be obtained from authorised financial institutions for any new investment, unless alternatives are not available.
- The Coordinator Financial Accounting is to prepare investment recommendation for approval by either the Finance Manager or the Director Corporate Services.
- Following approval the Coordinator Financial Accounting is to prepare documentation for funds transfer.
- Funds transfer to be authorised by two account signatories.
- Selection and acceptance of an investment offer will have regard to types allowed within this policy, rate of return, term, administrative costs, cash flow requirements and also need for diversity in investment of Council funds.
- Where primary investment objectives of safety, return and liquidity can be met, Council may seek to invest a portion of its investment portfolio in responsible investment products.

## **Selection of Funds Managers**

Fund managers will be selected using the following criteria:

- Standard & Poors long term rating AA or equivalent in other ratings categories.
- Certification of having read and understood relevant legislation including:
  - the Local Government Act Section 143 pertaining to local government investments
  - any Ministerial Releases in relation to investments for local government
  - City of Greater Dandenong Investment Policy

## **Cash Management**

The following principles apply to ensure efficient management of Council's cash resources:

- Cash flows and cash balances will be reviewed daily.
- Current balances will be maintained with the principle of achieving a minimum balance (ideally zero balance) once current cash flow commitments are met.
- Sufficient funds to meet short term cash requirements will be invested in an "at call" account with the Council's transactional banker.
- The balance of funds considered to be surplus to the Council's immediate cash requirements will be invested in accordance with the guidelines in this policy.

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- All investments including rolling movements will be recorded in Councils investment register.

## **Investments Advisor:**

An investment advisor, if appointed must be approved by Council and 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.

## **Federal Government Investment Guarantee**

Effective 1 February 2012 the Federal Government investment guarantee was reduced to a new permanent cap of \$250,000 per authorised deposit-taking institution (ADI) pursuant to the Financial Claims Scheme (FCS).

For investments in excess of \$250,000 in Australia's four major banks (National, Commonwealth, ANZ and Westpac), building society or credit unions access to the Federal Government Investment Guarantee is not required due to the financial soundness of these institutions. For investments beyond these banks, in excess of \$0.25 million, an investment guarantee should be sought.

## **Annual Review:**

The Coordinator Financial Accounting will maintain a system of written internal controls, which shall be reviewed and tested by the internal auditor at least annually or upon any extraordinary event, i.e. turnover of key personnel, the discovery of any inappropriate activity. The Principal Accounting Officer shall also act in an internal control capacity.

## **Performance and monitoring and reporting:**

Council's quarterly financial reporting will include a section on investments including:

- investments held;
- investment ratings;
- investment performance against relevant benchmarks and investment maturity dates.

Documentary evidence will be held for each investment, and the details thereof maintained in an Investment Register.

## **Investment Maturity:**

### Maturity Limitations:

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 where cash outflows associated with funds are identified as being long term in nature. Any longer term investment must align with expected future cash outflows.

### Short Term Portfolio:

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



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

*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 rate movements at different times of the economic cycle.

**Review:**

This policy is reviewable after 3 years of its adoption or earlier in the event of legislative changes.

## 7. Related Documents:

- Financial Management Policy
- Local Government Act 1989
- Annual Report

## 8. Appendix

### Principles of Sound Financial Management (section 136 LGA)

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.

### Investments (section 143, LGA)

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.



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**The Minister for Local Government authorised the following investments for the purposes of section 143(f) 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.



## Department for Victorian Communities

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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.

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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](mailto:paul.rozario@dvc.vic.gov.au) should you have any queries in relation to this matter.

Yours sincerely



**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