Investment & Treasury Management Policy

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| Policy outcome | Investment returns are optimised as funds are placed at the most advantageous rate of interest available, while considering the preservation of capital, liquidity, investment return target, and corporate social responsibility. |
| Responsible area | Financial Accounting team is responsible for the cash flow management, identification, and preparation of day-today investment decisions. |
| Version | 1.1 |
| Date approved/adopted |  |
| Planned review date | June 2026 |

1. Purpose

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.

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.
* Investments are timed to ensure sufficient funds are available to meet all operational requirements.

# 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.

1. Scope

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

1. Policy

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

The number one criterion for Investment decisions is:

# Preservation of Capital

All investments are placed to ensure security and safeguarding of the investment portfolio. This includes managing credit and interest rate risk within identified thresholds and parameters.

Additionally, investment decisions should aim to balance the following criteria:

# 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 (BBSW90). 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 *the Council Plan.*

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 throughout the financial year. 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.

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.

Authorised investments

Council can invest in the following:

* Term deposits
* At-Call accounts
* Floating rates notes
* Victorian Funds Management Corporation (VFMC) – Enhanced income fund
* Federal & State government bonds.

All investments are to be denominated in Australian dollars.

Credit ratings requirements

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

* investments for 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/F-2** or above.
* VFMC Enhanced income fund are allowable highly liquid long-term investments where monies placed by Council are invested by the fund in multiple institutions of various ratings. This has been approved by the Minister for Local Government and is classified as AAA rated.

Investment capping

Floating Rate Notes - capped at 20% of the total portfolio on the day the investment is placed and for a maximum term of 5 years. Floating Rate Notes can only be placed with institutions that meet the long-term rating criteria in this policy. VFMC enhanced income fund investments are included within this cap.

VFMC Enhanced income fund - capped at 20% of the total portfolio on the day the investment is placed for a maximum term of 7 years as they can be liquidated at any time without penalty. Floating rate note investments are included within this cap.

Federal & State government bonds- investment amount is unlimited but placed 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. \*Refer section Threshold requirements

# Minimum and maximum investments

The minimum investment principal should exceed $1 million, but a single investment parcel should not exceed $5 million.

Threshold requirements

Credit limits will differ depending on the investment term. 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:

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| **Individual Counterparty Limit** | **S&P Long Term** | **S&P Short Term** | **Moodys Long Term** | **Moodys Short Term** | **Fitch Long Term** | **Fitch Short Term** |
| **40%** | A+ or above | A-1 | A1 or above | P-1 (Prime 1) | A+ or above | F1/F1+ |
| **20%** | A to BBB+ | A-2 | A2 to Baa1 | P-2 (Prime 2) to P-1 | A to BBB+ | F1 to F2 |
| **30%** | A to BBB+ \*CSR special | A-2\*CSR special | A2 to Baa1\*CSR special | P-2 (Prime 2) to P-1\*CSR special | A to BBB+\*CSR special | F1 to F2\*CSR special |

The CSR special is granted to investments that have proven alignment with Council’s environmental and social sustainability commitment. Investment products will be recommended by Chief Financial Officer (CFO) for CSR category and endorsed by General Manager, Operations & Infrastructure.

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 to rebalance the above thresholds 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.

Treatment of subsidiaries

Where Council invests with institutions that have multiple subsidiaries, they need to be treated as a single entity, such as Commonwealth Bank/Bankwest, Westpac/St. George/Bank SA/Bank of Melbourne, Bendigo and Adelaide Bank/Rural Bank, BOQ/Members Equity, 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 placed 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.

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.

Credit agency rating review

Council uses the credit ratings of Standard & Poor’s, Moody’s, and Fitch when assessing the suitability of a financial institution. The credit ratings of each institution Council invest with is to be reviewed half-yearly with any changes to be communicated in the Monthly Financial Report (MFR). In times of economic volatility this review will occur on a more frequent basis.

Reporting and benchmarking

A monthly update is included in the Monthly Financial Report (MFR) to inform ELT of the total portfolio balance and performance to target and the percentage invested in CSR/fossil free investments. The fossil free percentage and investment performance is also included in the CEO report which is presented to Council monthly..

The report to ELT should confirm that investment limits for 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 Divisional GM OI within 24 hours of the breach being detected and reported in the Monthly Financial Report (MFR) as described above.

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:

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| **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 Divisional GM

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 in Council’s banking system.

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

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.

A member of Council staff who has a conflict of interest in a matter requiring a decision to be made by the member of Council staff as delegate must, immediately upon becoming aware of the conflict of interest, provide a written notice to the Chief Executive Officer explaining the nature of the conflict of interest. Any declaration must be made in accordance with the Conflict of Interest policy and be made publicly available via Councils Conflicts of Interest register. Governance will review the conflict and advise on the next steps before further investment activity can proceed.

Real Estate Rental Bonds

Where Council holds real estate rental bonds on behalf of tenants, including South Melbourne Market stallholders, these are required to be returned to the tenant upon full satisfaction of the terms of the lease agreement. It is a legislative requirement that these funds are to be returned with interest earned by Council over the term of the lease agreement.

Officers will apply interest on rental bonds at the weighted average rate of return earned by Council and compounded annually on 30 June each relevant financial year.

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 endorsing as part of the committees calendar of events.

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

1. Supplementary policy documents

N/A

1. Related legislation and documents

All investments are to comply with Local Government Act 2020 (LGA) Section 103 and Australian Accounting Standards.

Investment Types permitted under S103 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[[1]](#footnote-2)

Child Safe

The City of Port Phillip is a Child Safe organisation and has a legal and moral responsibility to understand and activate their role in preventing, detecting, responding, and reporting any Child Safety concerns. Council has zero tolerance for child abuse and is actively committed to embedding a culture of safety, wellbeing and inclusion for children and young people.

Consideration has been given to the Child Safe Standards in the development of this policy.

Gender Equality

Under the *Gender Equality Act 2020*, Council has a positive duty to advance gender equality in our organisation and our community.

Through the development of this policy, Council have assessed any impacts for people of different genders (women/girls, men/boys and people who are gender diverse). While gender impact assessment starts with gender, it also has considered impacts of other social factors such as age, Aboriginality, race, religion, (dis)ability, sexual orientation, and socio-economic status.

1. Definitions

| Term | Definition |
| --- | --- |
| AFMA | Australian Financial Markets Association |
| 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 90 days 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. 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, Fitch 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.  |
| Financial institution | An authorised deposit-taking institution within the meaning of the Banking Act 1959 (Commonwealth). |
| Victorian Funds Management Corporation (VFMC) | VFMC (managed fund) is a semi-government organisation which manages $80 billion of assets and are approved by the Minister for Local Government to invest with. |
| 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. |

1. **Document history**

| Version | Date of approval/adoption | Changes made | ECM record  |
| --- | --- | --- | --- |
| 2 | 9 July 2024 | Definitions added, VFMC information expanded |  |

1. This includes investments in Victorian Funds Management Corporation Enhanced Income Funds [↑](#footnote-ref-2)