

### 3.3 INVESTMENT POLICY – AUSTRALIAN GOVERNMENT DEPOSIT GUARANTEE

(FIN3: MK: DW )

Responsible Director: Marilyn Kearney

#### **RECOMMENDATION**

*That Council:*

*1. Authorises the Chief Executive Officer to review and update the Investment Policy to reflect the Government Deposit Guarantee Scheme to:*

- a) Invest only with Authorised Deposit-taking Institutions (ADI's);*
- b) Maximise Council investment opportunities with a range of ADI's within the guarantee threshold;*
- c) Invest any surplus funds to the guarantee thresholds on the basis that the premium is paid to access the Government Deposit Guarantee Scheme;*
- d) All investments with ADI's be made on a competitive basis;*
- e) Require that the Investment Policy be reviewed as part of the budget development process for 2009/10; and*

*2. Notes that the Government Deposit Guarantee is not be required to be paid for Council's current term deposits which have settlement dates between now and the 31 March 2009.*

#### **BACKGROUND**

The Australian Government has issued a Guarantee on all deposits in Authorised Deposit-taking Institutions (ADI's) up to \$1million until 12 October 2011. However from 28 November 2008 all deposits in an ADI where the deposit is:

- Up to \$1million the deposit will be guaranteed free of charge;
- Deposits over \$1million will be guaranteed for three years subject to paying a guarantee fee; and
- All bank bills and certificates of deposit etc will be guaranteed for three years subject to paying a guarantee fee, whether above or below \$1million.

#### **DISCUSSION**

Payment of the Guarantee is optional for take up by all legal entities. The Fee Structure has been developed having consideration to the credit rating of the ADI as detailed in the table below:

Credit Rating	Example of ADI's	Guarantee Fee
AA	CBA, Westpac, NAB, ANZ, HSBC Bank Australia, St George	70 Basis Points
A	Bankwest, ArabBank	100 Basis Points
BBB and unrated	Bendigo and Adelaide Bank, IMB,	150 Basis Points

The Guarantee is applied on a per customer per institution basis. This means that each legal entity (eg person, business, partnership or trust) can have up to \$1million guaranteed 'fee free' per ADI.

Until October 2007 Council's investments had been in cash managed fund products.

These investments, which have given healthy returns over a long period of time, have suffered since the sub-prime crisis and returns have remained extremely volatile. Since then Monash City Council's funds have been progressively invested in term deposits with first and second tier banks.

This has provided certainty for investment returns and until recently, provided interest on investments at higher than budgeted rates. However interest rate returns have fallen dramatically since October 2008.

The Government Guarantee does not cover market linked investments products such as share portfolio or managed funds.

It is also important to note that the funds in Australian ADI's were not guaranteed prior to the recent global economic turmoil. Council's current term deposits have settlement dates that mature between now and the 31 March 2009. It is recommended that should the decision to apply the Guarantee be taken by Council that it applies only to new term deposits only. (e.g. only on new investment and not existing investment funds before maturity).

### **Council Investment Policy**

The Auditor General has conducted a review (as part of the 2007/08 audit program) of the Investment Policies of Victorian Municipalities and found that approximately only half have Investment Policies in place.

Monash has had an Investment Policy in place since amalgamation. The Investment Policy is in accord with the investment restrictions contained within the Accounting Standards and the *Local Government Act 1989 S143*, which states:

A Council may invest any money-

- (a) In government securities of the Commonwealth;
- (b) In securities guaranteed by the Government of Victoria;

- (c) In an authorised deposit-taking institution;
- (d) With an authorised 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 after consultation with the Treasurer either generally or specifically, to be an authorised manner of investment for the purposes of this section.

It is proposed to update the Investment Policy in order to reference the treatment of the Government Guarantee.

### ***FINANCIAL IMPLICATIONS***

At the end of November 2008 Council had \$28 million in term deposits. This amount will grow to around \$50 million by February when municipal rate payments (paid in full) are due. We currently budget to achieve \$2.478 million pa in interest on investments. With the dramatic fall in interest rates it is likely that this budget will not be achieved.

Our budget shortfall may be in the order of \$500k in 2008/09. By adopting an investment strategy of investing only in guaranteed facilities any further significant negative impact could be avoided.

Interest earnings are important to the Council's long term Strategic Resource Plan as interest income from a successful Investment Strategy has contributed to maintaining Council's low rating position. Payment of the Guarantee will have the effect of diminishing the return on Council Investments at a time when interest rates are low, it is however hoped that post the introduction of the Guarantee that the competitive process will include an increase in interest rates as an offset to the Guaranteed options.

### ***CONCLUSION***

Giving consideration to the background information provided above it is recommended that the Investment Policy be updated to include the following:

- a) Invest only with Authorised Deposit-taking Institutions (ADI's);
- b) Maximise Council investment opportunities with a range of ADI's within the guarantee threshold;
- c) Invest any surplus funds to the guarantee thresholds on the basis that the premium is paid to access the Government Deposit Guarantee Scheme;
- d) All investments with ADI's be made on a competitive basis;
- e) Require that the Investment Policy be reviewed as part of the budget development process for 2009/10; and

Notes that the Government Deposit Guarantee not be required to be paid for Council's current term deposits which have settlement dates between now and the 31 March 2009.